

# Table of Contents

## CALIFORNIA HOUSING FINANCE AGENCY (A Component Unit of the State of California)

<b>California Housing Finance Fund</b>	<b>Page</b>
Independent Auditors' Report	1
Management Discussion and Analysis	3
Financial Statements:	
Combined Balance Sheets	13
Combined Statements of Revenues, Expenses and Changes in Fund Equity	14
Combined Statements of Cash Flows	15
Notes to Combined Financial Statements	17
Supplemental Combining Program Information:	
Homeownership Programs, Multifamily Rental Housing Programs and Other Programs and Accounts with combining totals	
Combining Balance Sheet	40
Combining Statement of Revenues, Expenses and Changes in Fund Equity	41
Combining Statement of Cash Flows	42
Homeownership Programs with combining totals	
Combining Balance Sheet	43
Combining Statement of Revenues, Expenses and Changes in Fund Equity	44
Combining Statement of Cash Flows	45
Multifamily Rental Housing Programs with combining totals	
Combining Balance Sheet	46
Combining Statement of Revenues, Expenses and Changes in Fund Equity	48
Combining Statement of Cash Flows	50
Other Programs and Accounts with combining totals	
Combining Balance Sheet	52
Combining Statement of Revenues, Expenses and Changes in Fund Equity	54
Combining Statement of Cash Flows	56
<b>California Housing Loan Insurance Fund</b>	
Independent Auditors' Report	59
Management Discussion and Analysis	60
Financial Statements:	
Balance Sheets	67
Statements of Revenues, Expenses and Changes in Fund Equity	68
Statements of Cash Flows	69
Notes to Financial Statements	70

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
California Housing Finance Agency  
Sacramento, California

We have audited the accompanying combined balance sheets of the California Housing Finance Fund ("Fund"), which is administered by the California Housing Finance Agency ("Agency"), a component unit of the State of California, as of June 30, 2005 and 2004, and the related combined statements of revenues, expenses and changes in fund equity, and of cash flows for the years then ended. These combined financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Fund, as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of management of the Agency. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental combining program information as of and for the year ended June 30, 2005, on pages 40 through 57 is presented for the purpose of additional analysis and is not a required part of the basic 2005 combined financial statements of the Fund. The supplemental combining program information is the responsibility of the management of the Agency. Such information has been subjected to the auditing procedures applied in our audit of the basic 2005 combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2005 combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2005, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions, loans, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing, of internal control over financial reporting and compliance, and the results of that testing and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Deloitte + Touche LLP*

September 27, 2005

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

**CALIFORNIA HOUSING FINANCE FUND**  
**Management Discussion and Analysis**  
**of Financial Position and Results of Operations**  
**As of and for the fiscal years ended June 2005 and 2004**

**Introduction – The California Housing Finance Agency**

The California Housing Finance Agency (“Agency”) was created in 1975 by an act of the California Legislature and commenced operations in 1976. The Agency is a component unit of the State of California (“State”) and is included in the State’s Comprehensive Annual Financial Report. The Agency is authorized to administer the activities of the California Housing Finance Fund (“Fund”), the California Housing Loan Insurance Fund (“Mortgage Insurance Fund”) and two state general obligation bond funds. The following Management Discussion and Analysis applies only to the activities of the California Housing Finance Fund and should be read in conjunction with the Fund’s combined financial statements and the notes to the combined financial statements. Operations of the Fund include the issuance of Agency bonds and notes to fund loans to qualified borrowers for single family houses and multifamily developments. The Agency is entirely self-funded and does not draw upon the general taxing authority of the State.

The combined financial statements present the totals of the Fund. The supplemental combining information of the Fund is organized by the following major categories: Homeownership Programs, Multifamily Rental Housing Programs, and Other Programs and Accounts. This information and information for specific programs and accounts is reported after the Notes to the combined financial statements.

The Homeownership Programs provide low cost mortgage capital to a network of approved lenders from whom the Agency purchases previously funded and closed loans secured by single family homes purchased by individual borrowers. The Multifamily Rental Housing Programs are typically used to directly fund loans to developers and housing sponsors for the construction or acquisition of multifamily rental housing developments. Interest rates on Agency loans are generally below market rate; however, the programs are operated to be self-supporting. The Agency issues its own bonds and uses other available monies to provide the funding for these loan programs. Interest paid to bondholders is generally exempt from both state and federal tax; however, the Agency also issues federally-taxable bonds.

The Other Programs and Accounts category includes the Agency’s Housing Assistance Trust, funded periodically from a portion of the Fund’s operating income before transfers. The Housing Assistance Trust provides a source of funding for low or very low income multifamily developments and home buyer downpayment assistance. Loans for these purposes generally would not produce sufficient revenues to support payments to bondholders. These loans typically accrue simple interest with repayment of principal and interest deferred for the term of the loan or until certain events occur, such as a sale of the property. Also included in this category are certain State-funded programs, which the Agency has been asked to administer for the State on a contract basis. Operating expenses of the Agency’s loan and bond programs are paid from an Operating Account that is replenished from the Fund’s operating income before transfers. Other accounts maintained by the Agency provide security for the issuance of bonds, emergency contingencies, loan servicing operations and loan warehousing activities.

**Financial Highlights 2005 – 2004**

- Operating income before transfers was \$21.3 million for fiscal year 2005 compared to \$55 million for fiscal year 2004. The decrease in Operating income before transfers is reflective of a reduction in homeownership interest income due to a continued decrease in the weighted average interest rate on loans and the decrease in homeownership program loans receivable.
- The Agency originated \$1.7 billion in new loans receivable during fiscal year 2005. Overall, program loans receivable increased \$94 million to \$5.6 billion at fiscal year end as first-time homebuyers continued to refinance their loans at a high rate resulting in \$1.3 billion of first loan prepayments.
- During fiscal year 2005, \$48.8 million was transferred into the Fund by the State pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002. The funds were used to make loans and grants to borrowers and homeowners through programs administered by the Agency on a contract basis.
- During fiscal year 2005, the Agency issued \$2.3 billion of notes and bonds.
- During fiscal year 2005 the Agency continued to actively use the interest rate swap market to provide synthetically fixed interest rates on many of the bonds issued. The Agency obtained a lower fixed cost of funds in the interest rate swap market than could be achieved by issuing fixed rate bonds. Of the \$2.3 billion in bonds issued, all but \$44 million was issued as variable rate debt and \$517 million of variable rate debt was synthetically swapped to fixed.

- The Agency continued to actively manage the Fund's interest expense and exposures within the debt portfolio, redeeming, and in some cases refunding, \$2.5 billion of bond indebtedness during fiscal year 2005.

## Condensed Financial Information:

### Combined Balance Sheet

The following table presents condensed combined balance sheets for the Fund as of June 30, 2005 and 2004 and the change from the prior year (dollars in millions):

#### Condensed Combined Balance Sheets

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Assets			
Cash and investments	\$3,706	\$4,066	\$ (360)
Program loans receivable-net	5,554	5,460	94
Other	134	155	(21)
Total Assets	<u>\$9,394</u>	<u>\$9,681</u>	<u>\$(287)</u>
Liabilities			
Bonds payable – net	\$7,501	\$7,873	\$(372)
Other	704	689	15
Total Liabilities	<u>8,205</u>	<u>8,562</u>	<u>(357)</u>
Fund Equity			
Invested in capital assets	1	1	
Restricted equity	1,188	1,118	70
Total Fund Equity	<u>1,189</u>	<u>1,119</u>	<u>70</u>
Total Liabilities and Fund Equity	<u>\$9,394</u>	<u>\$9,681</u>	<u>\$(287)</u>

### Assets

Of the Fund's assets, 99% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets.

Total assets decreased by \$287 million or 3% during fiscal year 2005. The Fund's cash and investments were \$3.7 billion as of June 30, 2005, a decrease of \$360 million from June 30, 2004. The 9% decrease in cash and investments is related to the decrease in interest income on program loans and the increase in bond redemptions during the fiscal year.

Of the Fund's assets, 39% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 72% is in investment agreements. Consistent with the Agency's investment policy, bond proceeds are normally invested in investment agreements with highly rated providers of such instruments because the agreements provide a low level of counterparty risk, a fixed rate of return and complete liquidity. The amount of funds invested in investment agreements during the 2005 fiscal year increased by \$508 million, due primarily to the issuance of drawdown bonds whose proceeds are invested in investment agreements. In addition, a substantial portion of the Fund's investments are held in the State's Surplus Money Investment Fund ("SMIF") and earn a variable rate of interest. The amount of funds invested in SMIF during fiscal year 2005 decreased by \$833 million, due primarily to bond redemptions and refundings.

The composition of cash and investments as of June 30, 2005 and 2004 and the changes from the prior year are shown in the table below (dollars in millions):

#### Cash and Investments

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Investment agreements	\$2,605	\$2,097	\$508
SMIF	971	1,804	(833)
Securities	59	75	(16)
Cash	71	90	(19)
Total	<u>\$3,706</u>	<u>\$4,066</u>	<u>\$(360)</u>

Program loans receivable increased by \$94 million or 2% during fiscal year 2005 compared to fiscal year 2004. This increase is due primarily to the significant increase the Agency has experienced in its Multifamily construction lending program. Multifamily Rental Housing Program loan originations were \$167 million during fiscal year 2005, compared to program loans originated during fiscal year 2004 of \$125 million. Special Program loan originations were \$207 million during fiscal year 2005, compared to program loans originated during fiscal year 2004 of \$83 million. The Agency had a very active year originating new Homeownership program loans and processing high levels of prepayments from borrowers. Within the Fund, the Agency originated almost \$1.7 billion in new loans of which over \$1.3 billion were single family first mortgages. However many homebuyers continued to take advantage of very low loan interest rates by refinancing their Agency loans resulting in fiscal year loan prepayments in excess of \$1.3 billion during fiscal year 2005 compared to \$1.8 billion of prepayments received in fiscal year 2004. The Agency does not offer home refinance opportunities to its borrowers as the homeownership loan programs are restricted to first time homebuyers.

Other assets decreased by \$21 million or 14% during fiscal year 2005. Nearly all of this decrease is attributable to a reduction in interest receivable from investments in homeownership as of June 30, 2005 when compared to June 30, 2004.

## Liabilities

The Fund's liabilities were \$8.2 billion as of June 30, 2005, a decrease of \$357 million or 4% from June 30, 2004. Of the Fund's liabilities, over 91% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2005 decreased by \$372 million from the prior year as the \$2.3 billion in new issuances in 2005 were offset by scheduled principal payments and \$2.5 billion in bond redemptions. Many of the bond redemptions during fiscal year 2005 were as a result of the large number of loan prepayments from homeowners. The Agency's governing statutes impose a cap of \$11.15 billion for bonds and notes issued and outstanding within the Fund. This debt cap is revisited every few years and is normally revised upward as needed.

All of the bonds issued by the Agency are reported within the Fund. The Agency issued a total of \$2.3 billion of Agency bonds during fiscal year 2005, an increase from the \$2 billion issued during fiscal year 2004. Of the bonds issued during fiscal year 2005, all but \$44 million were issued as variable interest rate bonds, and \$517 million of variable rate debt was swapped to provide synthetically fixed interest rates. As of June 30, 2005, the estimated "net" variable interest rate exposure of the Fund's total bond indebtedness was \$943 million. The estimated "net" variable interest rate exposure excludes all variable interest rate bonds swapped to fixed interest rates or directly backed by complementary variable interest rate assets. This "net" variable interest rate exposure provides an internal hedge against today's low interest rate environment evidenced by low short-term investment rates and increased loan prepayments. Interest costs on variable interest rate bonds that are swapped to a fixed interest rate have generally provided a lower total interest cost to the Fund than interest costs of traditional fixed interest rate products.

The Agency issues both tax-exempt and federally taxable bonds. During the 2005 fiscal year, federally taxable bonds decreased by 38% and as of June 30, 2005 represent 26% of all bonds outstanding, while tax-exempt bonds increased by 16% and as of June 30, 2005 represent 74% of all bonds outstanding. The use of federally taxable bonds allows the Agency to leverage its allocation of the Private Activity Bond volume cap for the Homeownership Programs. This limitation is imposed by the federal government to regulate the issuance of tax-exempt bonds for private purposes. During fiscal year 2005, the Agency had adequate tax-exempt issuance authority and did not need to leverage such authority through the issuance of taxable bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2005 and 2004 and the changes from the prior year (dollars in millions):

<b>Bonds Payable</b>			
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>Change</u></b>
Tax-Exempt Bonds			
*Variable Rate	\$4,777	\$3,216	\$ 1,561
Fixed Rate	778	1,564	(786)
Total Tax-Exempt Bonds	<u>\$5,555</u>	<u>\$4,780</u>	<u>\$ 775</u>
Federally Taxable Bonds			
*Variable Rate	\$1,669	\$2,684	\$(1,015)
Fixed Rate	269	425	(156)
Total Federally Taxable Bonds	<u>\$1,938</u>	<u>\$3,109</u>	<u>\$(1,171)</u>
Total Bonds Outstanding	<u><u>\$7,493</u></u>	<u><u>\$7,889</u></u>	<u><u>\$ (396)</u></u>

\* Certain variable rate bonds have been swapped to a fixed rate (see Note 6 to the Combined Financial Statements).

During fiscal year 2005, the Agency issued a debenture note payable to HUD in the amount of \$23.1 million. This debenture was issued in connection with filing a claim under the FHA Risk – Sharing program for a defaulted loan on a Multifamily development.

Other liabilities increased by \$15 million or 2% during fiscal year 2005. This increase is due primarily to the increase in the amount due to the IRS for yield reduction payments on Homeownership variable rate bonds. (see Note 7 to the Combined Financial Statements).

## Equity

All of the Fund's equity is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or invested in capital assets. Total equity of the Fund grew by \$70 million or 6% as a result of operating income of the Fund, in the amount of \$21 million and transfers to the Fund in the amount of \$48.8 million pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002.

## Revenues, Expenses, and Changes in Fund Equity

The following table presents condensed combined statements of revenues, expenses, and changes in fund equity for the Fund for the fiscal years ended June 30, 2005 and June 30, 2004 and the changes from the prior year (dollars in millions):

### Condensed Combined Statements of Revenues, Expenses, and Changes in Fund Equity

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Operating Revenues:			
Interest income program loans – net	\$300	\$346	\$(46)
Interest income investments – net	120	117	3
Increase in fair value of investments	1	(8)	9
Other loan and commitment fees	10	16	(6)
Other revenues	<u>79</u>	<u>78</u>	<u>1</u>
Total Operating Revenues	510	549	(39)
Operating Expenses:			
Interest	326	336	(10)
Mortgage servicing fees	14	15	(1)
Operating expenses	29	26	3
Other expenses	<u>120</u>	<u>117</u>	<u>3</u>
Total Operating Expenses	489	494	(5)
Operating Income before transfers	<u>\$ 21</u>	<u>\$ 55</u>	<u>\$(34)</u>

## Operating Revenues

Total operating revenues of the Fund were \$510 million during fiscal year 2005 compared to \$549 million during fiscal year 2004, a decrease of \$39 million or 7%.

Interest income on program loans was \$300 million during fiscal year 2005 compared to \$346 million during fiscal year 2004, a decrease of \$46 million. The decrease in interest income on program loans is a result of the reduction in the Fund's homeownership loan portfolio coupled with a decrease in the weighted average interest rate on homeownership loans. Overall, program loans receivable increased \$94 million or 2% at June 30, 2005 compared to June 30, 2004, however, the Homeownership portfolio decreased by \$72 million.

The Fund's investment portfolio decreased by \$341 million or 8% during fiscal year 2005, however, interest income from investments increased 3% to \$120 million in fiscal year 2005 from \$117 million in fiscal year 2004. This increase is due to the decrease of \$2.4 million in the positive arbitrage adjustment, which is taken against interest income from investments.

The fair value of the Fund's \$59 million investment in securities increased by \$1 million during fiscal year 2005. The increase in the fair value is attributable to both realized and unrealized gains and losses during the fiscal year.



Other loan and commitment fees decreased \$6 million to \$10 million for fiscal year 2005 compared to \$16 million during fiscal year 2004. The decrease is primarily attributable to a reduction in Homeownership commitments made to homebuilders due to continued low interest rates.

Other revenues increased by \$1 million to \$79 million during fiscal year 2005 compared to \$78 million in fiscal year 2004.

### **Operating Expenses**

Total operating expenses of the Fund were \$489 million during fiscal year 2005 compared to \$494 million during fiscal year 2004, a decrease of \$5 million or 1%.

Bonds payable at June 30, 2005 decreased by \$372 million or 5% from June 30, 2004 and therefore bond interest expense, which represents 67% of the Fund's total operating expenses, decreased by \$10 million or 3% compared to fiscal year 2004. The decrease in bond interest expense is also attributed to the continued use of interest rate swaps to create synthetic fixed interest rates with a lower cost than if fixed rate bonds were issued.

Mortgage servicing fees decreased by \$1 million or 7% in 2005 over 2004 as a result of a decrease in the level of program loans receivable balances being serviced by outside servicers.

The 12% growth in operating expenses from \$26 million during fiscal year 2004 to \$29 million during fiscal year 2005 (as shown in the condensed combined statements of revenues, expenses and changes in fund equity), resulted from an expansion of loan products offered and from increased staff expenses and technology related expenses related to building an infrastructure to support the growth in Agency programs.

### **Operating Income before Transfers**

The overall operating results of the Fund for fiscal year 2005 are reflective of the activity in the operating revenues and expenses discussed above. Operating income before transfers for fiscal year 2005 was \$21 million compared to \$55 million for fiscal year 2004. The \$34 million decrease in operating income before transfers is primarily due to the reduction Homeownership interest income and the decrease in Homeownership program loans receivable.

### **Financial Highlights 2004 – 2003**

- Operating income before transfers was \$55 million for fiscal year 2004 compared to \$86 million for fiscal year 2003. The decrease in Operating income before transfers is reflective of a \$8 million decrease in the fair value of the Agency's investments as compared to a \$11 million increase in fiscal year 2003.
- Although \$1.5 billion in new loans receivable were originated during fiscal year 2004, program loans receivable decreased \$550 million to \$5.5 billion at fiscal year end as first-time homebuyers continued to refinance their loans at a record pace resulting in \$1.8 billion of first loan prepayments.
- During the fiscal year \$39 million was transferred into the Fund by the State pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002. The funds were used to make loans and grants to borrowers and homeowners through programs administered by the Agency on a contract basis.
- During fiscal year 2004, the Agency issued \$2 billion of notes and bonds.
- During fiscal year 2004 the Agency continued to actively use the interest rate swap market to provide synthetically fixed interest rates on many of the bonds issued. The Agency obtains a lower fixed cost of funds in the interest rate swap market than can be achieved by issuing fixed rate bonds. Of the \$2 billion in bonds issued, all but \$21 million was issued as variable rate debt and \$937 million of this amount was synthetically swapped to fixed.
- To better manage the basis risk that is inherent in some of the Agency's swap agreements when short-term rates are very low and BMA/LIBOR percentage is high, the Agency entered into 13 basis swaps during fiscal year 2004, with an outstanding notional amount of \$692 million. These swap agreements result in comparable fixed-rate economics but will perform better when short-term rates are low and the BMA/LIBOR percentage is high.
- The Agency continued to actively manage the Fund's interest expense and exposures within the debt portfolio, redeeming, and in some cases refunding, \$2.1 billion of bond indebtedness during fiscal year 2004.

## Condensed Financial Information:

### Combined Balance Sheet

The following table presents condensed combined balance sheets for the Fund as of June 30, 2004 and 2003 and the change from the prior year (dollars in millions):

#### Condensed Combined Balance Sheets

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Assets			
Cash and investments	\$4,066	\$3,578	\$488
Program loans receivable-net	5,460	6,010	(550)
Other	155	189	(34)
Total Assets	<u>\$9,681</u>	<u>\$9,777</u>	<u>\$(96)</u>
Liabilities			
Bonds payable – net	\$7,873	\$8,137	\$(264)
Other	689	615	74
Total Liabilities	<u>8,562</u>	<u>8,752</u>	<u>(190)</u>
Fund Equity			
Invested in capital assets	1	1	
Restricted equity	1,118	1,024	94
Total Fund Equity	<u>1,119</u>	<u>1,025</u>	<u>94</u>
Total Liabilities and Fund Equity	<u>\$9,681</u>	<u>\$9,777</u>	<u>\$(96)</u>

### Assets

Of the Fund's assets, more than 98% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets.

Total assets decreased by \$96 million or 1% during fiscal year 2004. The Fund's cash and investments were \$4.1 billion as of June 30, 2004, an increase of \$488 million from June 30, 2003. The 14% increase in cash and investments is directly related to the record levels of loan prepayments from homeowners. These loan prepayments, totaling more than \$1.8 billion, have been or will be used for the following purposes: 1) to redeem bonds 2) for the direct purchase of new loans or 3) in connection with refundings of the underlying bonds to preserve the tax-exempt bond authority. In the latter case, the refunding bond proceeds, after being exchanged for a like amount of prepayments, are invested for future loan purchases.

Of the Fund's assets, 42% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 53% is in investment agreements. Consistent with the Agency's investment policy, bond proceeds are normally invested in investment agreements with highly rated providers of such instruments because the agreements provide a low level of counterparty risk, a fixed rate of return and complete liquidity. In addition, a substantial portion of the Fund's investments are held in the State's Surplus Money Investment Fund ("SMIF") and earn a variable rate of interest.

The composition of cash and investments as of June 30, 2004 and 2003 and the changes from the prior year are shown in the table below (dollars in millions):

#### Cash and Investments

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Investment agreements	\$2,097	\$1,980	\$117
SMIF	1,804	1,398	406
Securities	75	116	(41)
Cash	90	84	6
Total	<u>\$4,066</u>	<u>\$3,578</u>	<u>\$488</u>

Program loans receivable decreased by \$550 million or 9% during fiscal year 2004 compared to fiscal year 2003. The Agency had a very active year originating new program loans and processing high levels of prepayments from borrowers. Within the Fund, the Agency originated almost \$1.5 billion in new loans of which over \$1.3 billion were single family first mortgages. However many homebuyers continued to take advantage of very low loan interest rates by refinancing their Agency loans resulting in fiscal year loan prepayments in excess of \$1.8 billion during fiscal year 2004 which is comparable to \$1.8 billion of prepayments received in fiscal year 2003. The Agency does not offer home refinance opportunities to its borrowers as the homeownership loan programs are restricted to first time homebuyers. Multifamily Rental Housing Program loan originations were \$125 million during fiscal year 2004, compared to program loans originated during fiscal year 2003 of \$87 million. Special Program loan originations were \$83 million during fiscal year 2004, compared to program loans originated during fiscal year 2003 of \$62 million.

Other assets decreased by \$34 million or 18% during fiscal year 2004. Nearly all of this decrease is attributable to a decrease in loan prepayments due from outside loan servicers of homeownership loans as of June 30, 2004 when compared to June 30, 2003.

## Liabilities

The Fund's liabilities were \$8.6 billion as of June 30, 2004, a decrease of \$190 million or 2% from June 30, 2003. Of the Fund's liabilities, over 92% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2004 decreased by \$264 million from the prior year as the \$2 billion in new issuances in 2004 were offset by scheduled principal payments and \$2.1 billion in bond redemptions, many of the bond redemptions during fiscal year 2004 were as a result of the large number of loan prepayments from homeowners. The Agency's governing statutes impose a cap of \$11.15 billion for bonds and notes issued and outstanding within the Fund. This debt cap is revisited every few years and is normally revised upward as needed.

All of the bonds issued by the Agency are reported within the Fund. The Agency issued a total of \$2 billion of Agency bonds during fiscal year 2004, a decrease from the \$2.1 billion issued during fiscal year 2003. Of the bonds issued during fiscal year 2004, all but \$21 million were issued as variable interest rate bonds, and of that amount \$937 million was swapped to provide synthetically fixed interest rates. As of June 30, 2004, the estimated "net" variable interest rate exposure of the Fund's total bond indebtedness was \$1.2 billion. The estimated "net" variable interest rate exposure excludes all variable interest rate bonds swapped to fixed interest rates or directly backed by complementary variable interest rate assets. This "net" variable interest rate exposure provides an internal hedge against today's low interest rate environment evidenced by low short-term investment rates and increased loan prepayments. Interest costs on variable interest rate bonds that are swapped to a fixed interest rate have generally provided a lower total interest cost to the Fund than interest costs of traditional fixed interest rate products.

The Agency issues both tax-exempt and federally taxable bonds. During the 2004 fiscal year federally taxable bonds increased by 11.2% and as of June 30, 2004 represent 39% of all bonds outstanding, while tax-exempt bonds decreased by 10.8% and as of June 30, 2004 represent 61% of all bonds outstanding. The use of federally taxable bonds allows the Agency to leverage its allocation of the Private Activity Bond volume cap for the Homeownership Programs. This limitation is imposed by the federal government to regulate the issuance of tax-exempt bonds for private purposes. This leveraging of tax-exempt authority allows the Agency to provide increased mortgage capital, thus increasing the number of borrowers assisted by the Agency.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2004 and 2003 and the changes from the prior year (dollars in millions):

	<b>Bonds Payable</b>		
	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>Change</u></b>
Tax-Exempt Bonds			
*Variable Rate	\$3,216	\$2,619	\$ 597
Fixed Rate	1,564	2,740	(1,176)
Total Tax-Exempt Bonds	<u>\$4,780</u>	<u>\$5,359</u>	<u>\$ (579)</u>
Federally Taxable Bonds			
*Variable Rate	\$2,684	\$2,233	\$ 451
Fixed Rate	425	562	(137)
Total Federally Taxable Bonds	<u>\$3,109</u>	<u>\$2,795</u>	<u>\$ 314</u>
Total Bonds Outstanding	<u><u>\$7,889</u></u>	<u><u>\$8,154</u></u>	<u><u>\$ (265)</u></u>

\* Certain variable rate bonds have been swapped to fixed rate (see Note 6 to the Combined Financial Statements).

Other liabilities increased by \$74 million or 12% during fiscal year 2004. The Agency expanded its use of available short-term credit lines for loan warehousing purposes during the year, including an increase of \$50 million in borrowing from the Pooled Money Investment Board and \$30.4 million in borrowing from the revolving credit agreement increasing the total loan amount outstanding at June 30, 2004 to \$300 million and \$42 million, respectively.

## Equity

All of the Fund's equity is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or invested in capital assets. Total equity of the Fund grew by \$94 million or 9% as a result of operating income of the Fund, in the amount of \$55 million and transfers to the Fund in the amount of \$39 million pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002.

## Revenues, Expenses, and Changes in Fund Equity

The following table presents condensed combined statements of revenues, expenses, and changes in fund equity for the Fund for the fiscal years ended June 30, 2004 and June 30, 2003 and the changes from the prior year (dollars in millions):

### Condensed Combined Statements of Revenues, Expenses, and Changes in Fund Equity

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Operating Revenues			
Interest income program loans – net	\$346	\$424	\$(78)
Interest income investments – net	117	98	19
Increase in fair value of investments	(8)	11	(19)
Other loan and commitment fees	16	18	(2)
Other revenues	<u>78</u>	<u>78</u>	
Total Operating Revenues	<u>549</u>	<u>629</u>	<u>(80)</u>
Operating Expenses			
Interest	336	393	(57)
Mortgage servicing fees	15	19	(4)
Operating expenses	26	21	5
Other expenses	<u>117</u>	<u>110</u>	<u>7</u>
Total Operating Expenses	<u>494</u>	<u>543</u>	<u>(49)</u>
Operating Income before transfers	<u>\$ 55</u>	<u>\$ 86</u>	<u>\$(31)</u>

## Operating Revenues

Total operating revenues of the Fund were \$549 million during fiscal year 2004 compared to \$629 million during fiscal year 2003, a decrease of \$80 million or 12.7%.

Interest income on program loans was \$346 million during fiscal year 2004 compared to \$424 million during fiscal year 2003, a decrease of \$78 million. The decrease in interest income on program loans is a result of the reduction in the Fund's homeownership loan portfolio coupled with a decrease in the weighted average interest rate on homeownership loans. Program loans receivable decreased \$550 million or 9% at June 30, 2004 compared to June 30, 2003, of which \$532 is related to the Homeownership loan portfolio.

The Fund's investment portfolio increased by \$482 million or 14% during fiscal year 2004, interest income from investments increased 19% to \$117 million in fiscal year 2004 from \$98 million in fiscal year 2003.

The fair value of the Fund's \$75 million investment in securities decreased by \$8 million during fiscal year 2004. The decrease in the fair value is attributable to both realized and unrealized gain and losses during the fiscal year.

Other loan and commitment fees decreased \$2 million to \$16 million for fiscal year 2004 compared to \$18 million during fiscal year 2003. The decrease is primarily attributable to a \$3.3 million fee for loan prepayment as part of the refinancing of a multifamily rental housing development in fiscal year 2003.

Other revenues basically remained unchanged receiving \$78 million during fiscal year 2004 and fiscal year 2003.

## **Operating Expenses**

Total operating expenses of the Fund were \$494 million during fiscal year 2004 compared to \$543 million during fiscal year 2003, a decrease of \$49 million or 9%.

Bonds outstanding at June 30, 2004 decreased by \$264 million or 3.2 % from June 30, 2003 and bond interest expense, which represents 68% of the Fund's total operating expenses, decreased by \$57 million or 15% compared to fiscal year 2003. The reduction reflects the declining interest rate environment and ongoing management of the Fund's interest costs through the continued issuance of variable interest rate bonds and corresponding use of interest rate swaps to create synthetic fixed interest rates with a lower cost than if fixed rate bonds were issued.

Mortgage servicing fees decreased by 21% in 2004 over 2003 as a result of a decrease in the level of program loans receivable balances being serviced by outside servicers.

The 24% growth in operating expenses during fiscal year 2004, when compared to operating expenses for fiscal year 2003, results from an expansion of loan products offered, increased staff expenses and technology related expenses to build an infrastructure to support the growth in Agency programs.

## **Operating Income before Transfers**

The overall operating results of the Fund for fiscal year 2004 are reflective of the activity in the operating revenues and expenses discussed above. Operating income before transfers for fiscal year 2004 was \$55 million compared to \$86 million for fiscal year 2003. The \$31 million decrease in operating income before transfers is primarily due to the change in fair value of investments and increases in operating and other expenses.

(THIS PAGE INTENTIONALLY LEFT BLANK)

**CALIFORNIA HOUSING FINANCE FUND**  
**COMBINED BALANCE SHEETS**  
**June 30, 2005 and June 30, 2004**  
(Dollars in Thousands)

	<b>2005</b> <b>Combined</b> <b>Totals</b>	<b>2004</b> <b>Combined</b> <b>Totals</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 70,842	\$ 89,736
Investments	3,583,448	3,909,294
Current portion - program loans receivable, net of allowance	257,085	158,950
Interest receivable:		
Program loans, net	24,118	25,792
Investments	33,324	45,157
Accounts receivable	28,266	31,988
Other assets	727	1,114
Total current assets	<u>3,997,810</u>	<u>4,262,031</u>
Noncurrent assets:		
Investments	51,707	67,128
Program loans receivable, net of allowance	5,296,855	5,300,918
Deferred financing costs	31,474	35,151
Other assets	16,334	16,199
Total noncurrent assets	<u>5,396,370</u>	<u>5,419,396</u>
Total assets	<u><u>\$ 9,394,180</u></u>	<u><u>\$ 9,681,427</u></u>
<b>LIABILITIES AND FUND EQUITY</b>		
Current liabilities:		
Current portion - bonds payable, net	\$ 1,096,458	\$ 700,927
Interest payable	114,835	117,791
Due to other government entities, net	302,561	301,784
Compensated absences	2,119	1,659
Deposits and other liabilities	196,841	191,628
Total current liabilities	<u>1,712,814</u>	<u>1,313,789</u>
Noncurrent liabilities:		
Bonds and debenture notes payable, net	6,404,308	7,172,080
Due to other government entities, net	40,832	27,155
Deferred revenue	46,826	49,103
Total noncurrent liabilities	<u>6,491,966</u>	<u>7,248,338</u>
Total liabilities	<u>8,204,780</u>	<u>8,562,127</u>
Commitments and contingencies (see notes 11 and 13)		
Fund equity:		
Invested in capital assets	906	752
Restricted by indenture	721,750	708,234
Restricted by statute	466,744	410,314
Total fund equity	<u>1,189,400</u>	<u>1,119,300</u>
Total liabilities and fund equity	<u><u>\$ 9,394,180</u></u>	<u><u>\$ 9,681,427</u></u>

See notes to combined financial statements.

**CALIFORNIA HOUSING FINANCE FUND**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY**  
**June 30, 2005 and June 30, 2004**  
(Dollars in Thousands)

	<b>2005</b>	<b>2004</b>
	<b>Combined</b>	<b>Combined</b>
	<b><u>Totals</u></b>	<b><u>Totals</u></b>
OPERATING REVENUES		
Interest income:		
Program loans, net	\$ 300,330	\$ 346,229
Investments, net	119,381	116,837
Increase (decrease) in fair value of investments	788	(8,089)
Loan commitment fees	2,368	5,378
Other loan fees	7,994	11,183
Other revenues	<u>79,263</u>	<u>77,942</u>
Total operating revenues	<u>510,124</u>	<u>549,480</u>
OPERATING EXPENSES		
Interest	326,345	336,052
Amortization of bond discount and deferred losses		
on refundings of debt	1,391	1,876
Mortgage servicing expenses	14,084	15,405
Provision for program loan losses	6,833	2,431
Operating expenses	29,199	25,870
Other expenses	<u>111,007</u>	<u>112,933</u>
Total operating expenses	<u>488,859</u>	<u>494,567</u>
Operating income before transfers	21,265	54,913
Transfers, interfund	<u>48,835</u>	<u>39,685</u>
Increase in fund equity	70,100	94,598
Fund equity at beginning of year	<u>1,119,300</u>	<u>1,024,702</u>
Fund equity at end of year	<u><u>\$ 1,189,400</u></u>	<u><u>\$ 1,119,300</u></u>

See notes to combined financial statements.



**CALIFORNIA HOUSING FINANCE FUND**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**June 30, 2005 and June 30, 2004**  
(Dollars in Thousands)

	<b>2005</b> <b>Combined</b> <b>Totals</b>	<b>2004</b> <b>Combined</b> <b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 302,004	\$ 352,067
Payments to suppliers	(25,608)	(25,361)
Payments to employees	(18,580)	(16,652)
Other receipts (payments)	(83,225)	637,304
Net cash provided by operating activities	<u>174,591</u>	<u>947,358</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Due to other government entities	<u>415</u>	<u>46,721</u>
Net cash provided by noncapital financing activities	<u>415</u>	<u>46,721</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sales of bonds and debenture notes	2,328,074	2,048,335
Payment of bond principal	(182,570)	(187,776)
Early bond redemptions	(2,525,937)	(2,144,110)
Interest paid on debt	(329,300)	(354,198)
Interfund transfers	48,835	39,685
Additions to deferred costs	(6,268)	(8,675)
Net cash used for capital and related financing activities	<u>(667,166)</u>	<u>(606,739)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity and sale of investments	7,519,902	5,914,561
Purchase of investments	(7,177,848)	(6,404,682)
Interest on investments, net	<u>131,212</u>	<u>108,693</u>
Net cash provided by (used for) investing activities	<u>473,266</u>	<u>(381,428)</u>
Net increase (decrease) in cash and cash equivalents	(18,894)	5,912
Cash and cash equivalents at beginning of year	<u>89,736</u>	<u>83,824</u>
Cash and cash equivalents at end of year	<u>\$ 70,842</u>	<u>\$ 89,736</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 21,265	\$ 54,913
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest expense on debt	326,345	336,052
Interest on investments	(119,381)	(116,837)
Changes in fair value of investments	(788)	8,089
Accretion of capital appreciation bonds	7,820	18,131
Amortization of bond discount	162	650
Amortization of deferred losses on refundings of debt	1,229	1,226
Amortization of bond issuance costs	8,927	13,935
Amortization of deferred revenue	(2,368)	(5,378)
Depreciation	217	202
Provision for program loan losses	6,833	2,431
Provision for yield reduction payments	12,618	3,326
Provision for nonmortgage investment excess	1,058	496
Changes in certain assets and liabilities:		
Purchase of program loans	(1,664,388)	(1,503,465)
Collection of principal from program loans, net	1,563,503	2,051,657
Interest receivable	1,673	5,837
Accounts receivable	3,722	29,763
Due to other government entities	362	105
Other assets	16	(678)
Compensated absences	459	118
Deposits and other liabilities	5,214	47,050
Deferred revenue	93	(265)
Net cash provided by operating activities	<u>\$ 174,591</u>	<u>\$ 947,358</u>

See notes to combined financial statements.

**(THIS PAGE INENTIONALLY LEFT BLANK)**

**CALIFORNIA HOUSING FINANCE FUND**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Fiscal Years Ended June 30, 2005 and 2004**

**Note 1 – AUTHORIZING LEGISLATION AND ORGANIZATION**

The California Housing Finance Fund (“Fund”) is one of two continuously appropriated funds administered by the California Housing Finance Agency (“Agency”). The Agency was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act (“Act”), as amended, as a public instrumentality, a political subdivision and a component unit of the State of California (“State”), and administers the activities of the Fund and the California Housing Loan Insurance Fund (“Mortgage Insurance Fund”). These funds allow the Agency to carry out its purpose of financing the housing needs of persons and families of low and moderate income within the State. The Agency is authorized to issue its bonds, notes and other obligations to fund loans to qualified borrowers for single family houses and multifamily developments. The Agency has no taxing power and is exempt from federal income taxes and state franchise taxes. Funding of loan programs on an on-going basis is derived principally from bond proceeds and interest earned on loans and investments.

The Agency may also provide administrative, consulting and technical services in connection with the financing of housing developments; act as a State representative in receiving and allocating federal housing subsidies; and make grants, under certain circumstances, to housing sponsors (providing that grants may not be made with proceeds from the sale of bonds or notes).

The Agency is the administrator of the Home Purchase Assistance Fund, established by Section 51341 of the Health and Safety Code *et seq.* which is a state general obligation bond program, the funds of which are neither generated nor held within the Fund, and therefore, not included in the accompanying combined financial statements.

The accompanying combined financial statements are the combined financial statements of the Fund and do not include the financial position or the results of operations of the Mortgage Insurance Fund which insures loans owned by the Agency and others to finance the acquisition, new construction or rehabilitation of residential structures in California. As of December 31, 2004, the Mortgage Insurance Fund had total assets of \$57,512,000 and equity of \$55,915,000 respectively (not covered by this Independent Auditors’ Report).

As a component unit of the State, the financial information of the Fund is included in the State’s Comprehensive Annual Financial Report.

Programs and accounts are as follows:

*Home Mortgage Revenue Bonds:* The Home Mortgage Revenue Bonds provide financing for the Agency’s Home Mortgage Program which purchases eligible mortgage loans, secured by trust deeds on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lending institutions. All mortgage loans purchased under this program will be insured either by the Federal Housing Administration (“FHA”), the Mortgage Insurance Fund, the Department of Veterans Affairs (“VA”), a private mortgage guaranty insurance policy, or a combination thereof, covering a loss of up to fifty percent (50%), one hundred percent (100%) in the case of a FHA insured loan, of the outstanding principal amount of the mortgage loans.

*Single Family Mortgage Bonds 1995 Issue A:* The Single Family Mortgage Bonds 1995 Issue A provide financing for the Agency’s Home Mortgage Program which purchases eligible mortgage loans, secured by trust deeds on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lending institutions. All mortgage loans purchased under this program will be insured either by the FHA, the Mortgage Insurance Fund, the VA or a private mortgage guaranty insurance policy covering a loss of up to fifty percent (50%), one hundred percent (100%) in the case of a FHA insured loan, of the outstanding principal amount of the mortgage loans.

*Single Family Mortgage Bonds 1995 Issue B:* The Single Family Mortgage Bonds 1995 Issue B provide financing for the Agency’s Home Mortgage Program which purchases eligible mortgage loans, secured by trust deeds on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lending institutions. All mortgage loans purchased under this program will be insured either by the FHA, the Mortgage Insurance Fund, the VA or a private mortgage guaranty insurance policy covering a loss of up to fifty percent (50%), one hundred percent (100%) in the case of a FHA insured loan, of the outstanding principal amount of the mortgage loans.

*Single Family Mortgage Bonds II:* The Single Family Mortgage Bonds II, a parity indenture, provide financing for the Agency's Home Mortgage Program which purchases eligible mortgage loans, secured by trust deeds on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lending institutions. All mortgage loans purchased under this program will be insured either by the FHA, the Mortgage Insurance Fund, the VA or a private mortgage guaranty insurance policy covering a loss of up to fifty percent (50%), one hundred percent (100%) in the case of a FHA insured loan, of the outstanding principal amount of the mortgage loans.

*Draw Down Bonds:* The Draw Down Bonds are a low cost means for preserving tax exempt borrowing authority; they were issued in lieu of short term notes. The bonds are unrated and are issued in variable rate form and have monthly or weekly rate resets based on certain indices. The bonds are secured solely by their proceeds which are invested in investment agreements or the SMIF. These investments bear interest rates equal to or slightly in excess of the rates on the bonds.

*Housing Program Bonds:* The Housing Program Bonds Indenture was created to provide a vehicle for issuing debt to finance either multifamily or single family programs of the Agency. Bonds issued under this indenture are backed by the Agency's general obligation. As of June 30, 2005, the Agency has one series of bonds issued and outstanding under this indenture. These bonds were issued to finance deferred payment, simple interest loans originated under certain of the Agency's down payment assistance programs.

*Multi-Unit Rental Housing Revenue Bonds (I & II):* These bonds, issued in two phases under the Multi-Unit Rental Housing Program, provide for the permanent financing of newly constructed or substantially rehabilitated multi-unit rental housing developments. Housing developments financed under this program are designed primarily for occupancy by persons and families of low or moderate income.

*Multifamily Loan Purchase Bonds:* On July 26, 2000, the Agency purchased 278 HUD Section 236 loans with an aggregate unpaid principal balance of approximately \$270 million. The purpose of this transaction was to enhance the ability of the Agency to assist affordable housing sponsors to refinance their projects and extend the period during which the units are offered at affordable rents to very-low-income and lower-income tenants. The Agency expects to provide the financing for many of these transactions.

*Multifamily Housing Revenue Bonds:* The Multifamily Housing Revenue Bonds funded Tara Village Apartments, a multifamily residential development intended for occupancy in part by persons and families of very low income. The loan was collateralized by a Guaranteed Mortgage Pass-through Certificate issued by the Federal National Mortgage Association.

*Housing Revenue Bonds (Insured):* The Housing Revenue Bond Program provided for the construction and/or permanent financing of newly constructed or substantially rehabilitated rental housing developments and the refinancing of certain multi-unit dwellings through the issuance of Housing Revenue bonds. Housing developments financed under this program were designed in part for occupancy by persons and families of low or moderate income who need not be eligible for rental subsidy assistance.

*Multifamily Housing Revenue Bonds II:* The Multifamily Housing Revenue Bonds II are fixed rate bonds collateralized by the Government National Mortgage Association ("GNMA") mortgage-backed securities and/or FHA insured loans. The bonds were issued to provide financing for multi-unit rental housing developments which are utilized for occupancy by persons and families of low and moderate income. The loans may provide acquisition, construction (both for new construction and rehabilitation) and permanent financing for developments.

*Multifamily Housing Revenue Bonds III:* The Multifamily Housing Revenue Bonds III are fixed or variable rate bonds collateralized by GNMA mortgage-backed securities and/or FHA insured loans and/or uninsured loans. The bonds provide financing for multi-unit rental housing developments which are utilized for occupancy by persons and families of low and moderate income. The loans may provide acquisition, construction (both for new construction and rehabilitation), and permanent financing for developments.

*Housing Assistance Trust:* The Housing Assistance Trust ("HAT") is comprised of Agency investments in special purpose mortgage loans promoting both rental housing and homeownership, remaining investments in mortgage loans from fully redeemed bond indentures, and funds to assist in the development of single and multifamily projects through various low-interest loan and technical assistance programs. Also included within HAT are the debenture note payable related to the claim filed under the FHA Risk Sharing Act discussed in note 7, as well as funds held in trust representing Earned Surplus and Financial Adjustment Factor ("FAF") Savings from HUD Section 8 projects. Earned Surplus is to be used in lowering the rents for persons and families of low or moderate income in accordance with state law. FAF Savings are to be used in providing decent, safe, and sanitary housing, which is available for very-low income families and persons qualifying in accordance with federal law.

*Contract Administration Programs:* The Agency administers loan and grant programs for the Rental Housing Construction Program, the School Facilities Fee Assistance Program, the California Homebuyer's Downpayment Assistance Program and programs offered pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002. Funding of these programs was appropriated by the legislature or provided by voter authorized State bond programs to other departments and agencies within the State that have contracted with the Agency for this purpose. All monies transferred in accordance with the agreements and for the purposes of the program are considered assets of the Fund. The Fund received transfers in the amount of \$48,835,000 during fiscal year 2005.

*Revolving Credit Agreement:* The Agency entered into an agreement with a financial institution to provide a line of credit for short-term borrowings of up to \$100,000,000, which may be increased up to \$150,000,000. Under the terms of the agreement the Agency elects a fixed or variable rate of interest dependant on the expected duration of the draw and determined on the date of the draw as a stated spread to an associated index. The line of credit is available to the Agency until February 29, 2008. The proceeds of this credit facility are to be used for working capital purposes, including warehousing of multifamily program loans or homeownership program loans and making counterparty payments for various financial contracts. At June 30, 2005 draws totaling \$38,621,000 were outstanding.

*Supplementary Bond Security Account:* This account was established exclusively to secure issuances of bonds. This security may be accomplished by creating supplementary reserve accounts to provide for payment of the principal, interest, redemption premiums or sinking fund payments on bonds, or by insuring mortgage loans made with the proceeds of bond issues.

*Emergency Reserve Account:* This account was established by the Agency to meet its obligations and liabilities incurred in connection with its housing loan programs. This reserve is maintained at approximately one percent (1%) of the aggregate amount of the Agency's net program loans receivable.

*Loan Servicing:* The Agency services nearly all multifamily program loans, a small portion of the homeownership program loans in first lien position, all junior or subordinate lien homeownership program loans and certain other loans for the California State Teachers Retirement System. Loan servicing agreements require that the Agency hold and maintain escrow and reserve accounts, on behalf of borrowers, that are reported as "Deposits and other Liabilities".

*Loan Warehousing:* The Agency borrowed \$300,000,000 from the State's Pooled Money Investment Account for short-term warehousing of Agency loans. Homeownership loans are typically warehoused as they are purchased from originating lenders and subsequently transferred to individual bond financings on a monthly basis. The borrowing, which is reapplied for and approved in six-month intervals, requires that interest be paid on the loan at a rate equal to the earnings rate on the State's Surplus Money Investment Fund ("SMIF") on the date of the new loan.

*Operating Account:* The Operating Account was established for purposes of depositing funds available to the Agency for payment of operating and administrative expenses of the Agency and financing expenditures not associated with specific bond funds

## **Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation and Accounting:* The Fund is accounted for as an enterprise fund. Accordingly, the accompanying combined financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles").

*Accounting and Reporting Standards:* The Agency follows the Standards of Governmental Accounting and Financial Reporting, as promulgated by the Governmental Accounting Standards Board ("GASB"). The Agency has adopted the option under GASB No. 20 that allows the Agency to apply all GASB pronouncements and only Financial Accounting Standards Board ("FASB") pronouncements which date prior to November 30, 1989.

*Use of Estimates:* The preparation of combined financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

*Cash and Cash Equivalents:* The Agency considers cash on hand, cash on deposit with financial institutions and cash held in money market funds to be cash and cash equivalents.

*Investments:* All investments are reported at fair value as determined by financial services providers or financial publications, except for certain non-participating fixed interest investment contracts which are valued using cost based measures. The net increase (decrease) in the fair value of investments includes both realized and unrealized gains and losses.

*Interest Rate Swap Agreements:* The Agency enters into interest rate swap agreements with swap counterparties to manage variable interest rate risk exposure resulting from the issuance of variable rate bonds. The interest rate swap agreements provide synthetic fixed rates of interest on the underlying bonds and are accounted for as matched swaps in accordance with settlement accounting. An interest rate swap is considered to be a matched swap if it is linked through designation with an asset or liability that is on the balance sheet, provided that it has the opposite interest characteristics of such balance sheet item. Under settlement accounting, periodic net cash settlements under the swap agreements are treated as an increase or decrease in interest expense of the related bond liability over the lives of the agreements.

*Program Loans Receivable, net:* Loans receivable are carried at their outstanding principal balances, less an allowance for loan losses.

*Allowance for Program Loan Losses:* The Agency's policy is to charge expenses for estimated probable losses which are established as an allowance for loan losses. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans based on evaluations of collectibility and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, delinquencies, and anticipated economic and other conditions that may affect the borrowers' ability to repay the loans. While management uses the best information available to evaluate the adequacy of its allowance, future adjustments to the allowance may be necessary if actual experience differs from the factors used in making the evaluations.

*Other Real Estate Owned("REO"):* Property acquired by the Agency through foreclosure is recorded at the lower of estimated fair value less estimated selling costs (fair value) or the carrying value of the related loan at the date of foreclosure and is included in "Other Assets" on the accompanying combined financial statements. At the time the property is acquired, if the fair value is less than the loan amounts outstanding, any difference is charged against the allowance for loan losses. After acquisition, valuations are periodically performed and, if the carrying value of the property exceeds the current fair value, a valuation allowance is established by a charge to operations. Subsequent increases in the fair value may reduce or eliminate the allowance. Operating costs on foreclosed real estate are expensed as incurred. Costs incurred for physical improvements to foreclosed real estate are capitalized if the value is recoverable through future sale.

*Bonds Payable, net:* Bonds Payable and Debenture Notes Payable are carried at their outstanding principal balances, less unamortized bond discounts, unamortized underwriters discounts and deferred losses on refundings.

*Bond Premium, Discount and Deferred Financing Costs:* Premium, discount and financing costs on bonds are deferred and amortized over the life of the related bond issue using the straight line method of amortization.

*Capital Appreciation Bonds:* Capital appreciation bonds are payable upon redemption or at maturity in an amount equal to the initial principal amount of such bond plus an amount of interest which, based on semi-annual compounding from the original issuance date, will produce a given yield to the stated maturity. This "Accreted Value" is accrued as bond interest, thereby increasing the original issuance amount of the capital appreciation bond which is not paid until redemption or maturity.

*Compensated Absences:* Agency employees accrue vacation or annual leave in varying amounts for each monthly period worked. Employees may accumulate leave time, subject to certain limitations, and upon retirement, termination, or death may be compensated for certain accumulated amounts at their then current rates of pay. The Agency records an expense for all accumulated leave that the Agency would be required to pay if all employees terminated their employment.

*Deferred Revenue:* Deferred revenue represents the receipt of certain loan commitment fees and other fees from lenders and borrowers, which is generally recognized as revenue over the life of the associated loans. Also included in deferred revenue is the cumulative amount by which pass-through revenues exceed expenses and allowable costs of issuance of certain programs.

*Fund Equity:* Fund equity is classified as invested in capital assets or restricted equity. Invested in capital assets represents investments in office equipment and furniture net of depreciation. Restricted equity represents equity balances under the lien of bond indentures that are therefore pledged to bondholders. State statutes further restrict other net assets of the Fund solely for purposes of the Agency and provide for a continuing appropriation of such assets for the benefit of bondholders.

*Extinguishment of Debt:* The Agency accounts for gains and losses associated with debt refundings by deferring such gains or losses and recognizing them as revenues or expenses over the shorter of the term of the bonds extinguished or the term of the refunding bonds. Gains or losses associated with debt redemptions and maturing principal, other than refundings, are recognized as income or expense at the date of the extinguishment.

*Operating Revenues and Expenses:* The Fund's primary operating revenue is derived from the investment of bond proceeds in the loan programs and investment securities. The primary expense is interest expense on bonds outstanding. Net interest income is an important measure of performance for the Fund. "Interest income program loans" and "interest income investments-net" are shown as operating revenues in the statements of Revenue, Expenses and Changes in Fund Equity.

*Other Operating Revenues and Expenses:* The Agency administers certain Section 8 contracts under the HUD guidelines of New Construction and Substantial Rehabilitation. Included in most contracts is an administrative fee earned by the Agency which totaled \$1,773,000 and \$1,559,000 the years ended June 30, 2005 and 2004, respectively. HUD pass-through payments aggregated \$74,123,000 and \$73,050,000 for the years ended June 30, 2005 and 2004, respectively, and are reported as other operating revenues and expenses within Other Programs and Accounts.

*Recent Accounting Pronouncements:* In March 2003, GASB issued Statement of Government Accounting Standards ("SGAS") No. 40, Deposit and Investment Risk Disclosures. The Agency has adopted GASB Statement No. 40, effective for the fiscal year beginning July 1, 2004. GASB Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. Implementation of the statement did not affect the Agency's net assets or revenues, expenses, and changes in net assets, but resulted in additional disclosure.

### Note 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The Fund utilizes a cash and investment pool maintained by the State Treasurer's office. Each program and account's portion of this pool is included in investments on the balance sheet. In addition, other types of investments are separately held by most of the programs and accounts.

*Cash and Cash Equivalents:* At June 30, 2005 and 2004, all cash and cash equivalents, totaling \$70,842,000 and \$89,736,000, respectively, were covered by federal depository insurance or by collateral held by the Agency's agent in the Agency's name.

*Investments:* Investment of funds is restricted by the Act and the various bond resolutions and indentures of the Agency, generally, to certain types of investment securities, including direct obligations of the U.S. Government and its agencies, the State Treasurer's Pooled Money Investment Account, long term investment agreements which are issued by institutions rated within the top two ratings of a nationally recognized rating service, and other financial instruments. The Fund's investments are categorized to give an indication of the level of risk assumed by the Agency at June 30, 2005. Category 1 includes investments that are insured or registered or for which the securities are held within the Fund by the Agency's agent in the Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency but not in the Agency's name.

Investments at June 30, 2005 and 2004 are as follows (dollars in thousands):

	<b>1</b>	<b>Category 2</b>	<b>3</b>	<b>Fair Value June 30, 2005</b>	<b>Fair Value June 30, 2004</b>
U.S. Treasury Securities	\$ 1,644			\$ 1,644	\$ 1,523
U.S. Agency Securities --- GNMA's	28,992			28,992	37,262
Federal Agency Securities	22,143			22,143	29,493
Commercial Paper	7,456			7,456	6,994
Investment Agreements --- Financial Institutions (at cost)		\$ 1,287,913		1,287,913	1,280,653
Total	<u>\$ 60,235</u>	<u>\$ 1,287,913</u>	<u>\$ -</u>		
Other Investments (not subject to categorization):					
Surplus Money Investment Fund --- State of California				969,912	1,804,213
Other Investment Agreements (at cost)				1,317,095	816,284
Total Investments				<u>\$3,635,155</u>	<u>\$3,976,422</u>
Current portion				\$3,583,448	\$3,909,294
Noncurrent portion				51,707	67,128
Total				<u>\$3,635,155</u>	<u>\$3,976,422</u>

#### Note 4 – INVESTMENT RISK FACTORS

Investments by type at June 30, consist of the following (dollars in thousands):

	2005 Combined Totals	2004 Combined Totals
U.S. Treasury Securities	\$ 1,644	\$ 1,523
U.S. Treasury Securities --- GNMA's	28,992	37,262
Federal Agency Securities	22,143	29,493
Commercial Paper	7,456	6,994
Investment Agreement --- Financial Institutions (at cost)	2,605,008	2,096,937
Surplus Money Investment Fund --- State of California	969,912	1,804,213
Total Investments	<u>\$3,635,155</u>	<u>\$3,976,422</u>

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, and concentration of credit risk and interest rate risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. It is the investment policy of the Agency to invest substantially all of its funds in fixed income securities, which limits the Agency's exposure to most types of risk.

*Credit Risk:* Fixed income securities are subject to credit risk, which is the chance that a issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government are not considered to have credit risk.

The credit risk profile for fixed income securities at June 30, is as follow (dollars in thousands):

	2005 Combined Totals	2004 Combined Totals
Fixed income securities:		
U.S. government guaranteed	\$ 52,779	\$ 68,278
Guaranteed interest contracts:		
Rated Aaa/AAA	617,611	989,177
Rated Aaa/A	648,487	
Rated Aa3/AA	304,294	1,274
Rated Aa3/AA-	437,835	750,823
Rated Aa3/A+	1,424	6,456
Rated Aa2/AA	472,599	340,060
Rated Aa2/AA-	112,821	
Rated Aa2/A+		105
Rated Aa1/AA	8,468	3,634
Rated Aa1/AA-	1,469	5,408
Commercial Paper:		
Rated P1/A-1+	7,456	6,994
Total fixed income securities	<u>\$2,665,243</u>	<u>\$2,172,209</u>

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. At June 30, 2005, the Agency did not have any investments exposed to custodial credit. All investments are held by the State of California or a pledging financial institutions in the name of the Agency.

*Concentration of Credit Risk:* Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the Agency to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools, such as the commingled funds managed by the Agency are not considered subject to concentration of credit risk. At June 30, 2005, no investments in any one issuer exceed 5% of the net assets, except for securities issued by the U.S. government or its agencies.



*Interest Rate Risk:* Interest rate risk is the risk that the value of fixed income securities will decline due to decreasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. At June 30, 2005, the Agency does not have any debt investments that are highly sensitive to changes in interest rates.

Effective duration is the approximate change in price of a security resulting from a 100 basis points (1 percentage point) change in the level of interest rates. It is not a measure of time. The effective duration for fixed income securities at June 30, is as follows:

	<u>2005</u>	<u>2004</u>
Fixed income securities:		
U.S. government guaranteed	9.55	8.06
Commercial Paper	.27	.27

#### **Note 5 – PROGRAM LOANS RECEIVABLE**

Changes in program loans receivable for the years ended June 30, 2005 and 2004 are as follows (dollars in thousands):

	<u>2005</u>	<u>2004</u>
	<u>Combined</u>	<u>Combined</u>
	<u>Totals</u>	<u>Totals</u>
Beginning of year balance	\$5,512,912	\$6,061,232
Loans purchased/funded	1,664,388	1,503,465
Amortized principal repayments	(233,647)	(230,422)
Loan prepayments	(1,329,856)	(1,821,235)
Chargeoffs	(31)	(128)
Subtotal	5,613,766	5,512,912
Transfer REO to other assets	(138)	(158)
Allowance for loan losses	(59,688)	(52,886)
End of year balance	<u>\$5,553,940</u>	<u>\$5,459,868</u>
Current portion	\$ 257,085	\$ 158,950
Noncurrent portion	5,296,855	5,300,918
Total	<u>\$5,553,940</u>	<u>\$5,459,868</u>

#### **Note 6 – ALLOWANCE FOR PROGRAM LOAN LOSSES**

Changes in the allowance for program loan losses for the year ended June 30, 2005 and 2004 are as follows (dollars in thousands):

	<u>2005</u>	<u>2004</u>
	<u>Combined</u>	<u>Combined</u>
	<u>Totals</u>	<u>Totals</u>
Beginning of year balance	\$52,886	\$50,583
Provision for program loan losses	6,833	2,431
Chargeoffs	(31)	(128)
End of year balance	<u>\$59,688</u>	<u>\$52,886</u>

# **Note 7 – BONDS AND DEBENTURE NOTES PAYABLE AND ASSOCIATED INTEREST RATE SWAPS**

The Act empowers the Agency, on behalf of the Fund, to issue both federally taxable and tax exempt bonds and notes. Bonds and notes issued by the Agency are not debts of the State but are special and general obligations of the Agency payable solely from and collateralized by the revenues and other assets pledged under the respective indentures. The Act provides the Agency with the authority to have outstanding bonds or notes, at any one time, in the aggregate principal amount of \$11,150,000,000, excluding refunding issues and certain taxable securities.

The Agency, on behalf of the Fund, as part of its interest rate risk management program, has entered into interest rate swap agreements with various counterparties wherein the Agency has agreed to pay fixed or variable rates of interest and receive floating rate payments.

Bonds payable and the terms and outstanding notional amounts and fair value of associated interest rate swaps as of June 30, 2005 are as follows (dollars in thousands):

Bonds and Debenture Notes						
<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
Home Mortgage Revenue Bonds:						
1982 Series A	Tax-Exempt	10.250%	2014	\$ 2,420		\$ 2,420
1982 Series B	Tax-Exempt	10.625%	2014	770		770
1983 Series A	Tax-Exempt	10.263%	2015	15,389		15,389
1983 Series B	Tax-Exempt	10.751%	2015	4,685		4,685
1984 Series B	Tax-Exempt	11.493%	2016	574		574
1985 Series A	Tax-Exempt	10.989%	2016	605		605
1985 Series B	Tax-Exempt	9.876%	2017	3,475		3,475
1993 Series B	Tax-Exempt	5.200% - 5.650%	2014	8,500		8,500
1993 Series C	Tax-Exempt	5.200% - 5.300%	2006	1,005		1,005
1993 Series E	Tax-Exempt	5.100% - 5.500%	2014	5,455		5,455
1994 Series D	Tax-Exempt	2.250%	2034		\$ 9,250	9,250
1995 Series E	Tax-Exempt	5.400% - 5.900%	2009	8,045		8,045
1995 Series G	Tax-Exempt	5.600% - 5.900%	2009	14,560		14,560
1995 Series I	Tax-Exempt	2.180%	2035		14,150	14,150
1996 Series J-1	Tax-Exempt	4.750% - 5.050%	2010	3,400		3,400
1996 Series K	Tax-Exempt	5.650% - 6.150%	2016	11,675		11,675
1996 Series L	Tax-Exempt	5.550% - 5.650%	2006	1,715		1,715
1996 Series P	Tax-Exempt	5.250% - 6.000%	2014	4,525		4,525
1997 Series C	Taxable	7.010%	2028	1,190		1,190
1997 Series D	Tax-Exempt	4.900% - 5.850%	2017	6,705		6,705
1997 Series E	Tax-Exempt	5.150% - 5.850%	2026	2,735		2,735
1997 Series F	Taxable	7.180%	2029	2,155		2,155
1997 Series G	Taxable	3.314%	2017		6,290	6,290
1997 Series I	Tax-Exempt	4.950%	2028	475		475
1997 Series K	Taxable	6.740%	2029	2,915		2,915
1997 Series O	Tax-Exempt	5.650%	2027	10,555		10,555
1998 Series F	Tax-Exempt	4.450% - 5.100%	2016	31,980		31,980
1998 Series H	Taxable	6.330% - 6.430%	2028	1,855		1,855
1998 Series J	Tax-Exempt	4.850% - 5.300%	2029	9,630		9,630
1998 Series L	Taxable	6.070% - 6.140%	2029	13,905		13,905
1998 Series M	Taxable	3.205%	2023		19,960	19,960
1998 Series N	Tax-Exempt	4.100% - 4.500%	2022	7,770		7,770
1998 Series O	Taxable	5.570%	2022	7,280		7,280
1998 Series P	Taxable	2.871%	2029		33,000	33,000
1998 Series R	Tax-Exempt	4.050% - 4.550%	2024	5,675		5,675
1998 Series S	Taxable	5.660%	2026	17,070		17,070
1998 Series T	Taxable	2.859%	2029		16,575	16,575
1999 Series F	Tax-Exempt	5.200%	2028	6,653		6,653
1999 Series G	Taxable	6.870%	2011	22,070		22,070
1999 Series I	Tax-Exempt	2.228%	2015		10,775	10,775

Swaps					
Fixed Rate Paid By <u>Agency</u>	Floating Rate Received By <u>Agency</u>	Effective <u>Date</u>	Termination <u>Date</u>	Outstanding Notional/Applicable <u>Amount</u>	Fair <u>Value</u>

Bonds and Debenture Notes							
<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>		<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
1999 Series N	Tax-Exempt	4.700%	-	6.300%	2031	33,877	33,877
1999 Series O	Taxable			3.125%	2012	37,685	37,685
2000 Series B	Tax-Exempt	6.200%	-	6.850%	2019	8,511	8,511
2000 Series C	Tax-Exempt			2.453%	2031	38,730	38,730
2000 Series D	Taxable			3.135%	2023	45,265	45,265
2000 Series G	Tax-Exempt			2.380%	2017	5,750	5,750
2000 Series G	Tax-Exempt			2.448%	2031	53,425	53,425
2000 Series H	Taxable			3.095%	2017	63,320	63,320
2000 Series J	Tax-Exempt			2.355%	2031	33,445	33,445
2000 Series K	Taxable			2.846%	2031	88,215	88,215
2000 Series N	Tax-Exempt			2.355%	2031	48,415	48,415
2000 Series Q	Tax-Exempt			2.364%	2032	15,160	15,160
2000 Series Q	Tax-Exempt			2.364%	2032	25,000	25,000
2000 Series R	Taxable			2.859%	2032	76,375	76,375
2000 Series U	Tax-Exempt			2.362%	2017	36,610	36,610
2000 Series V	Taxable			3.060%	2032	71,620	71,620
2000 Series X-1	Tax-Exempt			2.210%	2015	13,195	13,195
2000 Series X-2	Tax-Exempt			2.355%	2031	36,445	36,445
2000 Series Z	Taxable			3.160%	2031	72,560	72,560
2001 Series C	Tax-Exempt			2.378%	2031	5,670	5,670
2001 Series C	Tax-Exempt			2.378%	2031	4,430	4,430
2001 Series D	Taxable			3.240%	2022	87,915	87,915
2001 Series F	Tax-Exempt			2.364%	2032	25,000	25,000
2001 Series G	Taxable			3.180%	2029	76,165	76,165
2001 Series J	Tax-Exempt			2.296%	2032	76,815	76,815
2001 Series K	Taxable			3.215%	2032	103,500	103,500
2001 Series N	Tax-Exempt			2.282%	2021	18,210	18,210
2001 Series O	Taxable			3.245%	2032	97,680	97,680
2001 Series R	Tax-Exempt			2.272%	2023	17,710	17,710
2001 Series R	Tax-Exempt			2.272%	2032	6,480	6,480
2001 Series S	Taxable			3.285%	2023	65,770	65,770
2001 Series U	Tax-Exempt			2.296%	2032	61,040	61,040
2001 Series V	Taxable			3.105%	2031	48,015	48,015
2002 Series A	Tax-Exempt	5.900%	-	6.000%	2022	4,994	4,994
2002 Series B	Tax-Exempt			2.295%	2033	48,700	48,700
2002 Series C	Taxable			3.225%	2033	63,510	63,510
2002 Series D	Taxable			3.145%	2030	68,110	68,110
2002 Series E	Taxable			2.813%	2033	17,000	17,000
2002 Series F	Tax-Exempt			2.282%	2033	66,095	66,095
2002 Series H	Taxable			3.225%	2022	53,305	53,305
2002 Series J	Tax-Exempt			2.292%	2033	102,635	102,635
2002 Series L	Taxable			3.225%	2024	49,635	49,635
2002 Series M	Tax-Exempt			2.274%	2032	41,600	41,600
2002 Series M	Tax-Exempt			2.274%	2032	9,010	9,010
2002 Series M	Tax-Exempt			2.274%	2033	39,680	39,680
2002 Series N	Tax-Exempt	2.150%	-	2.850%	2007	1,500	1,500
2002 Series O	Taxable			3.195%	2033	47,365	47,365
2002 Series P	Tax-Exempt			2.364%	2027	61,000	61,000
2002 Series Q	Tax-Exempt			2.364%	2033	36,600	36,600
2002 Series R	Tax-Exempt	2.000%	-	2.300%	2006	3,305	3,305
2002 Series S	Taxable			3.115%	2019	13,005	13,005
2002 Series T	Taxable			2.851%	2032	25,155	25,155
2002 Series U	Tax-Exempt			1.943%	2031	47,810	47,810
2002 Series U	Tax-Exempt			1.943%	2032	47,665	47,665
2002 Series V	Tax-Exempt	2.350%	-	3.750%	2009	12,125	12,125
2003 Series B	Taxable			3.105%	2027	19,040	19,040
2003 Series C	Taxable			2.857%	2033	7,000	7,000

Swaps					
<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
6.6550%	LIBOR	12/9/99	8/1/12	\$ 37,685	\$ (2,268)
4.8500%	LIBOR @ 65%	1/27/00	2/1/17	38,730	(6,386)
7.1950%	LIBOR	1/27/00	2/1/13	45,265	(4,380)
2.3800%	LIBOR @ 65%	4/6/00	8/1/08	5,750	(2,153)
4.8000%	LIBOR @ 65%	4/6/00	2/1/23	53,425	(9,155)
7.2600%	LIBOR	4/6/00	8/1/10	63,320	(4,204)
4.9000%	LIBOR @ 65%	5/25/00	8/1/30	33,445	(5,479)
7.5000%	LIBOR	5/25/00	2/1/17	88,215	(11,921)
5.1600%	LIBOR @ 65%	5/25/00	8/1/22	48,415	(5,497)
4.6600%	LIBOR @ 65%	7/27/00	2/1/16	15,160	(2,362)
4.9500%	LIBOR @ 65%	7/27/00	8/1/23	25,000	(2,928)
7.1100%	LIBOR	7/27/00	8/1/22	76,375	(13,137)
4.5275%	LIBOR @ 65%	10/5/00	8/1/15	36,610	(3,678)
7.0960%	6 mo LIBOR	10/5/00	8/1/14	71,620	(7,362)
4.3580%	LIBOR @ 64%	12/13/00	8/1/15	13,195	(742)
4.5100%	LIBOR @ 65%	12/13/00	8/1/31	36,445	(4,782)
6.8430%	3 mo LIBOR	12/13/00	8/1/16	72,560	(7,399)
3.9000%	LIBOR @ 65%	1/25/01	8/1/20	5,670	(368)
2.3780%	LIBOR @ 65%	1/25/01	8/1/16	4,430	(1,061)
6.2150%	3 mo LIBOR+.26%	1/25/01	8/1/19	87,915	(7,230)
3.8700%	LIBOR @ 65%	4/5/01	8/1/17	25,000	(2,201)
6.0100%	3 mo LIBOR+.20%	4/5/01	2/1/16	76,165	(5,366)
4.1430%	LIBOR @ 65%	5/31/01	8/1/24	76,815	(7,325)
3.9910%	LIBOR @ 65%	7/26/01	8/1/18	18,210	(1,279)
6.3600%	3 mo LIBOR+.27%	7/26/01	8/1/20	97,680	(8,570)
3.6900%	LIBOR @ 65%	10/10/01	2/1/19	17,710	(1,256)
2.2720%	LIBOR @ 65%	10/10/01	8/1/11	6,480	(1,068)
5.5300%	3 mo LIBOR+.31%	10/10/01	8/1/18	65,770	(2,981)
4.1300%	BMA less .15%	12/6/01	8/1/32	61,040	(3,844)
3.8880%	LIBOR @ 65%	4/18/02	8/1/27	48,700	(4,738)
5.6000%	3 mo LIBOR+.25%	5/1/02	8/1/12	63,510	(2,960)
5.8000%	3 mo LIBOR+.17%	8/1/02	2/1/11	68,110	(2,556)
6.1950%	1 mo LIBOR	8/1/02	8/1/14	17,000	(2,076)
3.9940%	LIBOR @ 65%	6/6/02	2/1/24	66,095	(5,848)
5.5350%	3 mo LIBOR+.25%	11/1/02	2/1/13	53,305	(1,550)
3.8630%	LIBOR @ 65%	8/8/02	8/1/32	102,635	(8,349)
5.1000%	3 mo LIBOR+.25%	12/1/02	2/1/13	49,635	(1,083)
3.7280%	LIBOR @ 65%	10/17/02	8/1/22	41,600	(3,380)
2.2740%	LIBOR @ 65%	10/17/02	8/1/12	9,010	(1,123)
4.4800%	LIBOR @ 65%	10/17/02	8/1/33	39,680	(1,377)
3.9890%	3 mo LIBOR+.22%	2/3/03	2/1/12	47,365	214
3.1480%	LIBOR @ 65%	12/12/02	8/1/22	61,000	(2,203)
3.8200%	LIBOR @ 65%	12/12/02	8/1/32	36,600	(1,025)
3.3500%	3 mo LIBOR+.14%	5/1/03	8/1/07	13,005	76
3.2400%	LIBOR @ 60%+.26%	3/6/03	2/1/31	47,810	(665)
3.9100%	LIBOR @ 60%+.26%	3/6/03	2/1/31	47,665	(844)

Bonds and Debenture Notes							
<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>		<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
2003 Series D	Tax-Exempt	1.300%	-	2.362%	2022	51,665	51,665
2003 Series D	Tax-Exempt			2.362%	2033	52,875	52,875
2003 Series E	Tax-Exempt			2.650%	2010	6,900	6,900
2003 Series F	Tax-Exempt			2.359%	2034	79,565	79,565
2003 Series F	Tax-Exempt			2.359%	2022	58,630	58,630
2003 Series G	Taxable			3.125%	2034	22,080	22,080
2003 Series H	Tax-Exempt			2.355%	2032	59,300	59,300
2003 Series H	Tax-Exempt			2.355%	2033	78,290	78,290
2003 Series I	Taxable			3.155%	2033	38,425	38,425
2003 Series K	Tax-Exempt			2.375%	2033	72,000	72,000
2003 Series K	Tax-Exempt	2.375%	2034	64,210	64,210		
2003 Series L	Taxable	3.155%	2034	33,940	33,940		
2003 Series M	Tax-Exempt	2.362%	2024	69,200	69,200		
2003 Series M	Tax-Exempt	2.282%	2034	78,420	78,420		
2003 Series N	Taxable	3.185%	2034	40,405	40,405		
2004 Series A	Tax-Exempt	2.370%	2033	56,365	56,365		
2004 Series A	Tax-Exempt	2.370%	2034	41,760	41,760		
2004 Series B	Taxable	3.145%	2034	34,115	34,115		
2004 Series D	Tax-Exempt	1.300%	-	3.300%	2010	20,375	20,375
2004 Series E	Tax-Exempt	2.575%	2035	60,065	60,065		
2004 Series E	Tax-Exempt	2.575%	2035	69,040	69,040		
2004 Series F	Taxable	3.165%	2035	50,000	50,000		
2004 Series G	Tax-Exempt	2.372%	2034	68,000	68,000		
2004 Series G	Tax-Exempt	2.370%	2035	31,960	31,960		
2004 Series H	Taxable	3.205%	2035	34,755	34,755		
2004 Series I	Tax-Exempt	2.370%	2035	12,935	12,935		
2004 Series I	Tax-Exempt	2.370%	2034	17,065	17,065		
2004 Series J	Taxable	3.095%	2035	9,920	9,920		
2005 Series A	Tax-Exempt	1.950%	-	2.680%	2035	200,000	200,000
2005 Series B	Tax-Exempt	2.375%	2016	64,780	64,780		
2005 Series B	Tax-Exempt	2.375%	2035	95,220	95,220		
2005 Series B	Tax-Exempt	2.375%	2035	40,000	40,000		
2005 Series C	Tax-Exempt	2.600%	-	3.700%	2013	44,000	44,000
2005 Series D	Tax-Exempt	2.606%	2040	106,130	106,130		
2005 Series D	Tax-Exempt	2.606%	2038	69,870	69,870		
Single Family Mortgage Bonds 1995 Issue A:							
1995 Issue A-1	Taxable	7.900%	-	8.240%	2014	1,215	1,215
1995 Issue A-2	Tax-Exempt	5.650%	-	6.450%	2026	6,420	6,420
Single Family Mortgage Bonds 1995 Issue B:							
1995 Issue B-2	Tax-Exempt	5.350%	-	6.300%	2027	9,485	9,485
Single Family Mortgage Bonds II:							
1997 Series A-1	Tax-Exempt	5.200%	-	6.000%	2020	22,680	22,680
1997 Series B-1	Tax-Exempt	4.750%	-	5.650%	2028	7,280	7,280
1997 Series B-3	Tax-Exempt	4.500%	-	5.400%	2029	13,305	13,305
1997 Series B-4	Taxable	6.460%	2018	4,960	4,960		
1997 Series C-1	Tax-Exempt	5.050%	2011	2,210	2,210		
1997 Series C-2	Tax-Exempt	4.950%	-	5.650%	2025	4,795	4,795
1997 Series C-3	Taxable	6.790%	2029	7,730	7,730		
1997 Series C-4	Tax-Exempt	4.950%	-	5.650%	2025	5,655	5,655
1998 Series A	Tax-Exempt	4.400%	-	5.400%	2026	3,385	3,385
1998 Series B	Tax-Exempt	5.150%	-	5.200%	2030	3,950	3,950

Swaps					
<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
3.1300%	LIBOR @ 60%+.26%	4/10/03	8/1/19	51,665	(580)
3.7750%	LIBOR @ 60%+.26%	4/10/03	8/1/33	52,875	(1,601)
3.7000%	LIBOR @ 60%+.26%	3/26/03	2/1/34	79,565	(1,589)
3.1250%	LIBOR @ 60%+.26%	3/26/03	2/1/18	58,630	(1,168)
2.6750%	LIBOR @ 60%+.26%	8/7/03	8/1/30	59,300	1,017
3.4270%	LIBOR @ 60%+.26%	8/7/03	8/1/33	78,290	780
3.2700%	LIBOR @ 60%+.26%	8/1/04	2/1/18	72,000	(2,257)
4.2450%	LIBOR @ 60%+.26%	8/1/04	8/1/30	64,210	(2,447)
3.2250%	LIBOR @ 60%+.26%	2/2/04	8/1/19	69,200	6,199
3.8900%	LIBOR @ 60%+.26%	2/2/04	2/1/34	78,420	(10,050)
3.0875%	LIBOR @ 60%+.26%	8/1/04	8/1/30	56,365	(1,124)
4.0450%	LIBOR @ 60%+.26%	8/1/04	2/1/34	41,760	(1,117)
3.5400%	LIBOR @ 60%+.26%	4/1/05	8/1/20	60,065	(2,964)
4.1330%	LIBOR @ 60%+.26%	4/1/05	2/1/35	69,040	(4,163)
3.6100%	LIBOR @ 60%+.26%	2/1/05	2/1/34	68,000	(4,412)
4.0821%	LIBOR @ 60%+.26%	8/1/04	2/1/35	31,960	(1,492)
4.0750%	LIBOR @ 60%+.26%	8/4/04	2/1/35	12,935	(530)
3.5600%	LIBOR @ 60%+.26%	8/4/04	2/1/33	17,065	(1,022)
3.8040%	LIBOR @ 60%+.26%	4/5/05	8/1/35	200,000	(7,679)
3.0490%	LIBOR @ 60%+.26%	7/1/05	2/1/16	64,780	(852)
3.7260%	LIBOR @ 60%+.26%	7/1/05	2/1/35	95,220	(2,014)
3.6040%	LIBOR @ 60%+.26%	5/19/05	2/1/40	106,130	(1,662)
3.1580%	LIBOR @ 60%+.26%	5/19/05	2/1/36	69,870	(1,090)

Bonds and Debenture Notes							
<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>		<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
1999 Series A-2	Tax-Exempt	4.800%	-	5.250%	2030	18,070	18,070
1999 Series A-3	Taxable			5.880%	2021	12,995	12,995
1999 Series A-4	Taxable			2.650%	2030	3,850	3,850
1999 Series D-2	Tax-Exempt	5.200%	-	5.920%	2022	4,155	4,155
1999 Series D-3	Taxable			6.880%	2017	17,255	17,255
Draw Down Bonds:							
Series 2004 A	Tax-Exempt			3.064%	2006	18,585	18,855
Series 2004 B-1	Tax-Exempt			3.190%	2006	475,000	475,000
Series 2004 B-2	Tax-Exempt			3.132%	2006	367,470	367,470
Series 2004 B-2	Tax-Exempt			3.132%	2006	8,590	8,590
Series 2005 A	Tax-Exempt			3.160%	2006	61,870	61,870
Housing Program Bonds:							
Series 2004 A	Tax-Exempt			2.800%	2036	15,000	35,000
Multi-Unit Rental Housing Revenue Bonds I:							
1994 Series B	Tax-Exempt	6.500%	-	7.125%	2024	12,310	12,310
Multi-Unit Rental Housing Revenue Bonds II:							
1992 Series B	Tax-Exempt	6.500%	-	6.700%	2015	20,695	20,695
1994 Series A	Tax-Exempt	7.350%	-	7.375%	2015	8,225	8,225
Multifamily Loan Purchase Bonds:							
2000 Series A	Taxable			Variable	2017	135,807	135,807
Multifamily Housing Revenue Bonds II:							
1995 Series A	Tax-Exempt			6.250%	2037	11,195	11,195
1995 Series B	Tax-Exempt	5.400%	-	6.300%	2026	36,875	36,875
1995 Series C	Taxable	6.750%	-	8.100%	2037	20,420	20,420
1996 Series A	Tax-Exempt			6.050%	2027	16,920	16,920
1996 Series B	Tax-Exempt	5.350%	-	6.150%	2022	22,135	22,135
Multifamily Housing Revenue Bonds III:							
1997 Series A	Tax-Exempt	5.850%	-	6.050%	2038	64,695	64,695
1998 Series A	Tax-Exempt	4.450%	-	5.500%	2038	33,275	33,275
1998 Series B	Tax-Exempt	4.450%	-	5.500%	2039	79,525	79,525
1998 Series C	Tax-Exempt	4.250%	-	5.300%	2028	14,820	14,820
1999 Series A	Tax-Exempt	4.200%	-	5.375%	2036	36,165	36,165
2000 Series A	Tax-Exempt			2.333%	2035	33,335	33,335
2000 Series A	Tax-Exempt			2.333%	2035	52,905	52,905
2000 Series B	Tax-Exempt			2.213%	2031	7,940	7,940
2000 Series C	Tax-Exempt			2.319%	2033	63,300	63,300
2000 Series D	Tax-Exempt			2.269%	2031	17,010	17,010
2001 Series A	Tax-Exempt			2.319%	2032	13,040	13,040
2001 Series C	Taxable			3.109%	2041	12,960	12,960
2001 Series D	Tax-Exempt			2.242%	2022	2,995	2,995
2001 Series D	Tax-Exempt			2.242%	2022	1,700	1,700
2001 Series E	Tax-Exempt			2.392%	2036	54,150	54,150
2001 Series E	Tax-Exempt			2.392%	2036	11,460	11,460
2001 Series F	Tax-Exempt			2.361%	2032	17,660	17,660
2001 Series G	Tax-Exempt			2.382%	2036	46,350	46,350



Swaps					
<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
3.1450%	LIBOR @ 60%+.26%	11/4/04	11/1/19	35,000	(504)
5.4550%	BMA less .15%	7/12/00	2/1/35	33,335	(8,951)
4.6600%	LIBOR @ 65%	7/12/00	2/1/26	52,905	(8,816)
4.5850%	LIBOR @ 64%	7/12/00	2/1/31	7,940	(1,096)
4.4300%	LIBOR @ 65%	11/16/00	2/1/33	63,300	(11,936)
4.3950%	LIBOR @ 64%	11/16/00	2/1/31	17,010	(2,615)
4.6200%	BMA less .15%	2/22/01	2/1/32	13,040	(1,450)
4.4520%	BMA less .20%	6/28/01	8/1/22	2,995	(272)
4.7120%	BMA less .15%	6/28/01	2/1/36	54,150	(7,553)
4.0290%	BMA less .20%	2/1/02	2/1/32	17,660	(1,207)
4.2050%	BMA less .15%	2/1/02	8/1/36	46,350	(3,896)

Bonds and Debenture Notes						
<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
2001 Series G	Tax-Exempt	2.382%	2036		10,475	10,475
2001 Series G	Tax-Exempt	2.382%	2036		6,640	6,640
2001 Series H	Taxable	2.862%	2036		15,595	15,595
2002 Series A	Tax-Exempt	2.392%	2037		18,890	18,890
2002 Series A	Tax-Exempt	2.392%	2037		13,070	13,070
2002 Series A	Tax-Exempt	2.392%	2037		10,490	10,490
2002 Series B	Tax-Exempt	2.361%	2035		32,210	32,210
2002 Series C	Tax-Exempt	2.406%	2037		14,765	14,765
2002 Series C	Tax-Exempt	2.406%	2037		17,350	17,350
2002 Series C	Tax-Exempt	2.406%	2037		5,935	5,935
2002 Series D	Tax-Exempt	2.242%	2035		12,545	12,545
2002 Series D	Tax-Exempt	2.242%	2035		105	105
2002 Series E	Tax-Exempt	2.392%	2037		16,175	16,175
2002 Series E	Tax-Exempt	2.392%	2037		41,955	41,955
2002 Series E	Tax-Exempt	2.392%	2037		12,810	12,810
2003 Series A	Tax-Exempt	2.489%	2038		29,710	29,710
2003 Series A	Tax-Exempt	2.489%	2038		28,795	28,795
2003 Series A	Tax-Exempt	2.489%	2038		5,510	5,510
2003 Series B	Tax-Exempt	3.250%	2038		9,360	9,360
2003 Series B	Tax-Exempt	3.250%	2038		15,845	15,845
2003 Series B	Tax-Exempt	3.250%	2038		9,545	9,545
2003 Series B	Tax-Exempt	3.250%	2038		34,885	34,885
2003 Series C	Tax-Exempt	2.467%	2038		16,520	16,520
2003 Series C	Tax-Exempt	2.467%	2038		17,470	17,470
2003 Series C	Tax-Exempt	2.467%	2038		19,010	19,010
2003 Series C	Tax-Exempt	2.467%	2038		43,965	43,965
2004 Series A	Tax-Exempt	2.231%	2034		23,210	23,210
2004 Series B	Tax-Exempt	2.432%	2039		12,950	12,950
2004 Series B	Tax-Exempt	2.432%	2039		7,500	7,500
2004 Series B	Tax-Exempt	2.432%	2039		5,640	5,640
2004 Series B	Tax-Exempt	2.432%	2039		16,890	16,890
2004 Series B	Tax-Exempt	2.432%	2039		3,060	3,060
2004 Series B	Tax-Exempt	2.432%	2039		53,295	53,295
2004 Series C	Tax-Exempt	2.152%	2037		9,720	9,720
2004 Series C	Tax-Exempt	2.152%	2037		4,220	4,220
2004 Series D	Tax-Exempt	2.489%	2039		13,600	13,600
2004 Series D	Tax-Exempt	2.489%	2039		6,595	6,595
2004 Series D	Tax-Exempt	2.489%	2039		7,215	7,215
2004 Series D	Tax-Exempt	2.489%	2039		38,735	38,735
2004 Series D	Tax-Exempt	2.489%	2039		72,330	72,330
2005 Series A	Tax-Exempt	2.288%	2035		2,480	2,480
2005 Series B	Tax-Exempt	2.450%	2038		2,825	2,825
2005 Series B	Tax-Exempt	2.450%	2038		26,645	26,645
2005 Series B	Tax-Exempt	2.450%	2038		4,060	4,060
2005 Series B	Tax-Exempt	2.450%	2038		58,395	58,395
Multifamily Draw Down						
Bonds:						
Series 2005	Tax-Exempt	3.160%	2005		21,610	21,610
				1,046,610	6,446,290	7,492,900
Unamortized discount						(970)
Unamortized deferred losses on refundings						(14,298)
Total Bonds						7,477,632
Housing Assistance Trust:						
Ridgeway Apartments (debenture note)		6.375%	2010	23,134		23,134
Total Bonds and Debenture Notes				\$1,069,744	\$6,446,290	\$7,500,766

Swaps					
<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
4.5950%	BMA less .15%	2/1/04	2/1/34	10,475	(1,335)
4.5000%	BMA less .15%	8/1/02	8/1/32	18,890	(1,957)
4.8900%	BMA less .15%	2/2/04	2/1/37	13,070	(2,034)
4.0370%	BMA less .20%	2/1/03	2/1/35	32,210	(2,178)
4.4050%	BMA less .15%	2/1/04	2/1/37	14,765	(1,621)
4.6380%	BMA less .15%	8/1/05	8/1/37	17,350	(2,188)
4.0850%	BMA less .20%	2/3/03	2/1/35	12,545	(942)
4.1510%	BMA less .15%	2/3/03	2/1/34	16,175	(1,257)
4.5710%	BMA less .15%	11/1/04	8/1/37	41,955	(5,711)
4.2950%	BMA less .15%	9/1/05	2/1/38	29,710	(1,641)
3.3850%	BMA less .15%	8/1/03	8/1/36	28,795	58
3.8830%	LIBOR @ 60%+.26%	12/1/04	8/1/38	9,360	(1,034)
3.9680%	LIBOR @ 60%+.26%	7/1/05	2/1/36	15,845	(1,776)
4.0600%	LIBOR @ 60%+.26%	2/1/06	8/1/38	9,545	(1,202)
3.5560%	LIBOR @ 60%+.26%	2/1/04	8/1/35	16,520	(647)
4.0260%	LIBOR @ 60%+.26%	8/1/05	8/1/35	17,470	(1,125)
4.1770%	LIBOR @ 60%+.26%	2/1/06	8/1/38	19,010	(1,300)
3.0590%	LIBOR @ 60%+.26%	8/1/04	8/1/34	23,210	(507)
3.6920%	LIBOR @ 60%+.26%	8/1/06	8/1/36	12,950	(746)
3.3860%	LIBOR @ 60%+.26%	8/1/04	8/1/34	7,500	(169)
3.3300%	LIBOR @ 60%+.26%	8/1/04	8/1/34	5,640	(177)
4.9783%	BMA less .15%	8/1/06	2/1/39	16,890	(1,816)
4.5390%	BMA less .15%	8/1/04	8/1/34	3,060	(254)
3.4350%	LIBOR @ 60%+.21%	2/1/05	8/1/25	9,720	(540)
3.5880%	LIBOR @ 60%+.21%	12/1/06	2/1/37	4,220	(297)
3.5900%	LIBOR @ 60%+.26%	2/1/05	2/1/35	13,600	(1,071)
3.5680%	LIBOR @ 60%+.26%	12/1/05	2/1/36	6,595	(342)
3.7780%	LIBOR @ 60%+.26%	11/1/06	2/1/37	7,215	(466)
3.9840%	LIBOR @ 60%+.26%	12/1/07	8/1/39	38,735	(2,884)
3.5640%	BMA less .20%	7/1/05	8/1/35	2,480	(14)
3.9540%	BMA less .15%	6/15/05	8/1/35	2,825	(91)
4.0790%	BMA less .15%	2/1/07	2/1/37	26,645	(857)
3.9570%	BMA less .15%	8/1/07	2/1/38	4,060	(30)
				<u>\$4,526,890</u>	<u>\$(304,133)</u>

Changes in bonds and debenture notes payable for the year ended June 30, 2005 and 2004 are as follows (dollars in thousands):

	<b>2005 Combined Totals</b>	<b>2004 Combined Totals</b>
Beginning of year balance	\$7,873,007	\$8,136,870
New bonds issued	2,304,940	2,048,335
New debenture notes issued	23,134	
Scheduled maturities	(182,570)	(187,776)
Redemptions	(2,525,937)	(2,144,110)
Bond accretions	7,820	18,131
Unamortized discount	162	650
Unamortized deferred loss	1,229	1,226
Additions to deferred costs	(1,019)	(428)
Reclassified discount as deferred loss		109
End of year balance	<u>\$7,500,766</u>	<u>\$7,873,007</u>
Current portion	\$1,096,458	\$ 700,927
Noncurrent portion	<u>6,404,308</u>	<u>7,172,080</u>
Total	<u>\$7,500,766</u>	<u>\$7,873,007</u>

The Agency's variable rate debt is typically related to common indices such as the Bond Market Association ("BMA") or the London Inter-Bank Offered Rate ("LIBOR") and resets periodically. The interest calculations shown in the table below are based on the variable rate in effect at June 30, 2005, and may not be indicative of the actual interest expense that will be incurred by the Fund. As rates vary, variable rate bond interest payments and net swap payments will vary. The table below provides a summary of debt service requirements and net swap payments for the next five years and in five year increments thereafter (dollars in thousands):

<b>Fiscal Year Ending June 30</b>	<b>Fixed/Variable Unswapped</b>		<b>Variable Swapped</b>		<b>Interest Rate</b>	<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Swaps, Net</b>	
2006	\$ 1,020,536	\$ 84,308	\$ 75,935	\$ 101,357	\$ 89,113	\$ 1,371,249
2007	69,893	64,529	91,020	103,842	89,531	418,815
2008	76,514	61,761	100,895	98,799	85,333	423,302
2009	81,713	58,729	105,875	93,047	79,681	419,045
2010	75,342	55,627	108,675	86,959	73,678	400,281
2011-2015	265,689	243,030	594,015	352,120	295,234	1,750,088
2016-2020	327,726	202,026	729,380	232,112	194,785	1,686,029
2021-2025	205,226	163,682	819,475	147,655	124,754	1,460,792
2026-2030	270,583	115,832	986,310	82,737	70,809	1,526,271
2031-2035	203,543	74,606	816,385	27,226	23,152	1,144,912
2036-2040	356,285	33,415	98,925	2,409	2,153	493,187
2041	12,960	403				13,363
Total	<u>\$ 2,966,010</u>	<u>\$ 1,157,948</u>	<u>\$ 4,526,890</u>	<u>\$1,328,263</u>	<u>\$ 1,128,223</u>	<u>\$ 11,107,334</u>

**Objective of the Interest Rate Swaps:** In order to protect against rising rates, the Agency primarily entered into swaps to establish synthetic fixed rates for a like amount of the Agency's variable rate bond obligations. The majority of the Agency's interest rate swap transactions are structured for the Agency to pay a fixed interest rate while receiving a variable interest rate (fixed payer swaps), the exceptions are listed below under Basis Risk Associated with Interest Rate Swaps. Synthetic fixed rates provide the Agency with a significantly lower fixed cost of funds compared to issuing fixed-rate bonds.

**Terms, Fair Value and Credit Risk of Interest Rate Swaps:** The terms of the outstanding fixed payer swaps as of June 30, 2005 are summarized in the table above. The terms of the outstanding basis swaps are summarized in the table under Basis Risk Associated with Interest Rate Swaps. The Agency has also entered into one anticipatory swap with a total notional amount of \$33,870,000 at 3.701% to mature on February 1, 2038. This Swap was not effective at June 30, 2005.

All notional amounts (or “applicable amounts”) of the fixed payer swaps match the principal amounts of the associated debt with the following exceptions (dollars in thousands):

<u>Bond Issue</u>	<u>Bonds Outstanding</u>	<u>Swaps Notional Amount</u>	<u>Unmatched Swaps</u>	<u>Fair Value</u>
Home Mortgage Revenue Bonds:				
2000 Series C *	\$ 38,730	\$ 42,500	\$ 3,770	\$ (567)
2000 Series G	53,425	60,000	6,575	(1,003)
2000 Series N	48,415	50,000	1,585	(174)
2000 Series Q	40,160	44,085	3,925	(471)
2003 Series D	104,540	113,150	8,610	(433)
2004 Series G	99,960	99,955	(5)	
Multifamily Housing Revenue Bonds III:				
2004 Series A	23,210	23,660	450	10
Total	<u>\$ 408,440</u>	<u>\$ 433,350</u>	<u>\$ 24,910</u>	<u>\$ (2,638)</u>

\*Includes Basis Swaps.

As of June 30, 2005 the fair value of the unmatched swaps is reported in the combined balance sheets as “Deposits and other liabilities” or “Accounts receivable” and as a gain or loss on the fair value of the swaps as “Other Revenues” or “Other Expenses” in the combined statements of revenues, expenses and changes in Fund equity. The Agency did not pay or receive any cash when the swap transactions were initiated.

The Agency utilizes ten highly-creditworthy counterparties for its interest rate swap transactions. Seventy-six percent of the notional amount outstanding at June 30, 2005 is with four of the counterparties. The largest single exposure to any one counterparty is \$1,245,275,000. The Agency negotiated “asymmetrical” credit requirements for all interest rate swap transactions. These asymmetrical provisions impose higher credit standards on the counterparties than on the Agency. Counterparties are required to collateralize their exposure to the Agency when their credit ratings fall from double-A to the highest single-A category (A1/A+), whereas the Agency is not required to provide collateralization until its ratings fall to the mid-single-A category (A2/A).

Because interest rates have generally declined, the aggregate fair value of the Agency’s fixed payer swap agreements had a negative fair value of \$304,133,000 as of June 30, 2005. Fair values are as reported by the Agency’s dealer counterparties and are estimated using the zero-coupon method.

As of June 30, 2005, the Agency’s swap portfolio has an aggregate negative fair value and the Agency is not exposed to credit risk. However, should interest rates begin to rise; the negative fair value of the swap portfolio would be reduced and could eventually become positive. At this point, the Agency would become exposed to the counterparties’ credit, since the counterparties would be obligated to make payments to the Agency in the event of termination.

The table below shows the number of fixed payer swaps and outstanding notional amounts by the counterparties’ respective credit ratings (dollars in thousands).

<u>Moody’s</u>	<u>Standard &amp; Poors</u>	<u>Outstanding Notional Amount</u>	<u>Number of Swap Transactions</u>
Aaa	AAA	\$1,218,045	24
Aaa	AAA <sup>1</sup>	595,235	22
Aaa	AA+	320,795	6
Aa3	A+	863,325	23
Aa2	AA+	81,170	2
Aa2	AA	99,955	2
Aa2	AA-	144,800	6
Aa1	AA+	212,530	8
Aa1	AA	232,975	5
Aa1	AA-	795,870	19
		<u>\$4,564,700</u>	<u>117</u>

**Basis Risk Associated with Interest Rate Swaps:** All of the Agency's interest rate swaps contain an element of basis risk, the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because floating rates paid by swap counterparties are based on indices, which consist of market-wide averages, while interest paid on the Agency's variable rate bonds is specific to individual bond issues.

Historically, the Agency's variable rate tax-exempt bonds trade at a slight discount to the BMA index. For those swaps associated with tax-exempt bonds for which the Agency receives a variable rate payment based on a percentage of LIBOR, the Agency is exposed to basis risk should the relationship between BMA and LIBOR converge.

Based on the historic relationship between short-term tax-exempt and taxable rates, the Agency initially chose to enter into many swaps at a ratio of 65% of LIBOR. However, with short-term rates at historic lows, the historic relationship between tax-exempt and taxable rates has not been maintained. Therefore, after considerable study of California tax-exempt variable rate history, the Agency settled on a new formula (60% of LIBOR plus a spread, currently .26%) that results in comparable fixed-rate economics but performs better when short-term rates are low and the BMA/LIBOR percentage is high. As of June 30, 2005, the BMA rate was 2.28%, 65% of one-month LIBOR was 2.171% and 60% of one-month LIBOR plus 26 basis points was 2.264%. Since December of 2002 the Agency has used this new formula, and the Agency expects to continue to use this formula for LIBOR based swaps exclusively. In addition, the Agency entered into thirteen basis swaps as a means to change the variable rate formula received for \$667,360,000 outstanding notional amount. These basis swaps changed the variable rate formula received from counterparties from 65% of LIBOR to those described in the table below (dollars in thousands):

<u>Bond Issue</u>	<u>Variable Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u> **	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
Home Mortgage Revenue Bonds:						
2000 Series C	LIBOR @ 65%	LIBOR @ 65%-0.019%	2/1/04	2/1/17	\$ 42,500	\$ 36
2000 Series J	LIBOR @ 65%	LIBOR @ 65%-0.019%	2/1/04	8/1/30	33,445	(45)
2000 Series U	LIBOR @ 65%	LIBOR @ 65%-0.019%	2/1/04	8/1/15	36,610	47
2000 Series X-2	LIBOR @ 65%	LIBOR @ 65%-0.019%	2/1/04	8/1/31	36,445	(35)
2001 Series J	LIBOR @ 65%	LIBOR @ 50.6%+0.494%	2/1/04	8/1/24	76,815	(379)
2001 Series N	LIBOR @ 65%	LIBOR @ 65%-0.019%	2/1/04	8/1/18	18,210	18
2002 Series B	LIBOR @ 65%	LIBOR @ 65%-0.019%	2/1/04	8/1/27	48,700	(86)
2002 Series F	LIBOR @ 65%	LIBOR @ 65%-0.019%	2/1/04	2/1/24	66,095	(29)
2002 Series J	LIBOR @ 65%	LIBOR @ 50.6%+0.494%	2/1/04	8/1/32	102,635	(526)
2002 Series M	LIBOR @ 65%	LIBOR @ 65%-0.019%	2/1/04	8/1/22	41,600	(55)
2002 Series P	LIBOR @ 65%	LIBOR @ 50.6%+0.494%	2/1/04	8/1/22	61,000	(317)
Multifamily Housing Revenue Bonds III:						
2000 Series A	LIBOR @ 65%	LIBOR @ 50.6%+0.494%	2/1/04	2/1/26	52,905	(293)
2000 Series C	LIBOR @ 65%	LIBOR @ 50.6%+0.506%	2/1/04	2/1/29	50,400	(292)
					<u>\$ 667,360</u>	<u>\$ (1,956)</u>

\*the notional amount and the amortization of these swaps mirror the initial 65% of LIBOR swaps, basically overlaying the swaps so that the effective rate received from the counterparties are the rates shown in the table above.

\*\*the variable interest rate received by the counterparties is dependent on the LIBOR interest rate at the time of settlement. the rate shown in the table is the effective rate at 6/30/05.

In addition, the Multifamily Housing Revenue Bonds III Series 2000 C has two associated interest rate swaps, one for \$63,300,000, the total amount of the bonds outstanding, and the second on \$12,900,000 of the same bonds (the second swap is not reflected in the interest rate swap table above). Under the terms of the first swap the Agency pays a fixed interest rate and receives a variable interest rate; while under the second swap, the Agency elected to pay a variable rate of interest based on a percentage of LIBOR and receive a variable rate of interest based on BMA.

**Termination Risk associated with Interest Rate Swaps:** Counterparties to the Agency's interest rate swap agreements have ordinary termination rights that require settlement payments by the Agency or the counterparty based on the fair value of the swap at the date of termination. During fiscal year 2005, termination events occurred which required settlement payments by the Agency totaling \$602,000.

**Rollover Risk Associated with Interest Rate Swaps:** The Agency's interest rate swap agreements have limited rollover risk as the swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled and anticipated reductions in the associated bonds payable.

**Debenture Note Payable:** In October 2004, a Development known as "Ridgeway Apartments," situated in Marin City, California, defaulted on its loan, which was insured by FHA under the Risk Sharing Act, with 50% of the risk covered by FHA. In May 2005, the Agency submitted a claim under the Risk Sharing Act, which FHA paid on May 13, 2005, in the amount of \$23,133,890, representing the unpaid principal balance of this loan in the amount of \$22,117,043 plus unpaid interest of \$1,016,847. On June 8, 2005, the amount representing the unpaid principal balance of the loan was used to redeem the respective multifamily housing revenue bonds issued to fund the loan, and the loan has been transferred to the Agency's Housing Assistance Trust.

In place of the bonds the Agency's obligation is to HUD in the form of a "debenture note payable", due May 13, 2010 with annual interest payments at a rate of 6.75%. The debenture note payable may be paid earlier upon the loan default being resolved (which may include the loan default being cured).

#### **Note 8 – NONMORTGAGE INVESTMENT EXCESS**

In accordance with Federal law, the Agency is required to rebate to the Internal Revenue Service ("IRS") the excess of the amount actually earned on all nonmortgage investments (derived from investing the bond proceeds) over the amount that would have been earned had those investments borne a rate equal to the yield on the bond issue, plus any income attributable to such excess. As of June 30, 2005 and 2004, the Fund had liabilities to the IRS totaling \$24,887,000 and \$23,829,000, respectively reported in the combined balance sheets as "Due to other Government entities". The net effect of changes in the liability account has been recorded as a reduction of "Interest income from Investments" in the combined statements of revenues, expenses and changes in Fund equity.

The Agency issued Home Mortgage Revenue Bonds in 1994 and 1995 as variable rate plans of finance subject to review and monitoring for mortgage yield compliance. As of June 30, 2005 and 2004, these bonds had estimated liabilities to the IRS of \$15,944,000 and \$3,326,000, respectively reported in the combined balance sheets as "Due to other Government entities". The net effect of changes in the liability account has been recorded as a reduction of "interest income from program loans and loan agreements". The Agency will continue to monitor the status of mortgage yield compliance for the aforementioned bonds to monitor and mitigate further liability.

#### **Note 9 – EXTINGUISHMENT OF DEBT**

On June 24, 2004 the Agency issued Multifamily Housing Revenue Bonds III 2004 Series A and Series B and on August 2, 2004 a portion of the proceeds were used to refund Housing Revenue Bonds (Insured) 1994 Series B, Series C and Series D. On November 17, 2004 the Agency issued Multifamily Housing Revenue Bonds III 2004 Series C and Series D and on February 1, 2005 a portion of the proceeds were used to refund Housing Revenue Bonds (Insured) 1994 Series E and Series F. The loss from the debt refundings was deferred and will be amortized as a component of interest expense over the shorter of the term of the bonds extinguished or the term of the refunding bonds.

A summary of the loss from the extinguishment of the Multifamily Rental Housing Programs' debt for the year ended June 30, 2005 is as follows (dollars in thousands):

Unmatured principal	\$36,345
Unamortized bond issuance costs	(89)
Unamortized underwriter's fees	(245)
Net obligation defeased	36,011
Less proceeds disbursed	36,345
Less premiums disbursed	685
Deferred loss on defeasance	<u>\$ (1,019)</u>

The refunding will decrease the debt service cash outflow for Multifamily Programs by approximately \$15,354,514. The refunding may also provide for an economic gain (present value of the difference between new and old debt service requirements) for Multifamily Programs, which is estimated to be approximately \$10,382,166.

#### **Note 10 – PENSION PLAN**

The Fund contributes to the Public Employees' Retirement Fund ("PERF") as part of the State of California, the primary government. The PERF is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employment Retirement System ("CalPERS"). CalPERS provides retirement, death, disability and post retirement health care benefits to members as established by

state statute. CalPERS issues a publicly available Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information for the Public Employees' Retirement Fund. A copy of that report may be obtained from CalPERS, Central Supply, P.O. Box 942715, Sacramento, CA 95229-2715 or via the internet at [www.calpers.ca.gov](http://www.calpers.ca.gov).

For the CalPERS fiscal years ended June 30, 2005 and 2004 the employer contribution rates were 13.21% - 17.022% and 10.265% - 14.843%, respectively.

The Fund's contributions to the PERF for the years ended June 30, 2005, 2004 and 2003 were \$2,181,278, \$1,802,204 and \$783,792 respectively, equal to the required contributions for each fiscal year.

Required contributions are determined by actuarial valuation using the individual entry age normal actuarial cost method. The most recent actuarial valuation available is as of June 30, 2003 which actuarial assumptions included (a) 7.75% investment rate of return compounded annually, (b) projected salary increases that vary based on duration of service, and (c) overall payroll growth factor of 3.25% annually. Both (a) and (c) included an inflation component of 3% compounded annually and a .25% per annum productivity increase assumption.

The most recent actuarial valuation of the PERF indicated that there was an unfunded actuarial accrued liability. The amount of the under funded liability applicable to each agency or department cannot be determined. Trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2004 CalPERS CAFR.

#### **Note 11 – COMMITMENTS**

As of June 30, 2005, the Agency had outstanding commitments and conditionally approved loan reservations to fund Homeownership Program loans totaling \$ 47,986,120 and had outstanding commitments to fund Multifamily Program loans totaling \$579,988,145. As of June 30, 2005, the Agency had proceeds available from bonds issued to fund \$221,623,918 of Homeownership Program loans and \$380,889,318 of Multifamily Program loans.

#### **Note 12 – ARRANGEMENTS WITH THE MORTGAGE INSURANCE FUND**

All operating and administrative expenses of the Agency are initially paid from the Fund including certain operating and administrative expenses in support of mortgage guarantee insurance programs which are reported in the Mortgage Insurance Fund. Quarterly the Fund charges the Mortgage Insurance Fund for these expenses.

The Agency Board of Directors approved Resolution 03-19 on March 20, 2003 authorizing the Agency to utilize the resources of the fund to support the mortgage guaranty insurance programs of the Agency in the following two ways: 1) the Executive Director of the Agency is authorized to create one or more supplementary reserve accounts within the Supplementary Bond Security Account of the Fund to indemnify the Mortgage Insurance Fund for losses incurred or to pay claims against the Mortgage Insurance Fund in connection with loans financed by the Agency, and 2) the Executive Director of the Agency may establish an inter-fund credit agreement by which the Mortgage Insurance Fund may borrow such sums from the Fund as may be required to maintain the claims paying rating of any credit rating service.

Subsequently, the Agency Executive Director established an inter-fund credit agreement in the amount of \$100,000,000 in which the Mortgage Insurance Fund may borrow from the Fund as needed for the purpose of paying claims arising out of policies of mortgage guarantee insurance and costs and expenses related to the payment of such claims. Interest rate(s) and repayment terms are determined upon receipt of a request to draw on this credit facility. The Mortgage Insurance Fund had not requested a draw on this credit through June 30, 2005.

#### **Note 13 – LITIGATION**

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against the Agency. Based upon information available to the Agency, its review of such lawsuits and claims and consultation with counsel, the Agency believes the liability relating to these actions, if any, would not have a material adverse effect on the Fund's combined financial statements.

\* \* \* \* \*



**(THIS PAGE INENTIONALLY LEFT BLANK)**

**CALIFORNIA HOUSING FINANCE FUND**  
**SUPPLEMENTAL COMBINING BALANCE SHEET**  
**June 30, 2005**

(Dollars in Thousands)

	<u>Homeownership Programs</u>	<u>Multifamily Rental Housing Programs</u>	<u>Other Programs and Accounts</u>	<u>Combined Totals</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 28,263	\$ 9,215	\$ 33,364	\$ 70,842
Investments	2,509,151	629,288	445,009	3,583,448
Current portion - program loans receivable, net of allowance	75,324	148,390	33,371	257,085
Interest receivable:				
Program loans, net	16,513	5,396	2,209	24,118
Investments	23,704	5,862	3,758	33,324
Accounts receivable	27,546	16	704	28,266
Due from (to) other funds	(18,235)	(11,621)	29,856	
Other assets	155	496	76	727
Total current assets	<u>2,662,421</u>	<u>787,042</u>	<u>548,347</u>	<u>3,997,810</u>
Noncurrent assets:				
Investments	22,268	28,498	941	51,707
Program loans receivable, net of allowance	3,641,964	1,201,440	453,451	5,296,855
Due from (to) other funds	(11,850)		11,850	
Deferred financing costs	22,881	8,489	104	31,474
Other assets	138	15,290	906	16,334
Total noncurrent assets	<u>3,675,401</u>	<u>1,253,717</u>	<u>467,252</u>	<u>5,396,370</u>
Total assets	<u>\$ 6,337,822</u>	<u>\$ 2,040,759</u>	<u>\$ 1,015,599</u>	<u>\$ 9,394,180</u>
<b>LIABILITIES AND FUND EQUITY</b>				
Current liabilities:				
Current portion - bonds payable, net	\$ 1,052,105	\$ 44,353		\$ 1,096,458
Interest payable	88,912	22,862	\$ 3,061	114,835
Due to other government entities, net			302,561	302,561
Compensated absences			2,119	2,119
Deposits and other liabilities	6,155	288	190,398	196,841
Total current liabilities	<u>1,147,172</u>	<u>67,503</u>	<u>498,139</u>	<u>1,712,814</u>
Noncurrent liabilities:				
Bonds and debenture notes payable, net	4,732,388	1,648,786	23,134	6,404,308
Due to other government entities	38,922	1,910		40,832
Deferred revenue	20,119	31	26,676	46,826
Total noncurrent liabilities	<u>4,791,429</u>	<u>1,650,727</u>	<u>49,810</u>	<u>6,491,966</u>
Total liabilities	<u>5,938,601</u>	<u>1,718,230</u>	<u>547,949</u>	<u>8,204,780</u>
Fund equity:				
Invested in capital assets			906	906
Restricted by indenture	399,221	322,529		721,750
Restricted by statute			466,744	466,744
Total fund equity	<u>399,221</u>	<u>322,529</u>	<u>467,650</u>	<u>1,189,400</u>
Total liabilities and fund equity	<u>\$ 6,337,822</u>	<u>\$ 2,040,759</u>	<u>\$ 1,015,599</u>	<u>\$ 9,394,180</u>

**CALIFORNIA HOUSING FINANCE FUND**

**SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY**

**Fiscal Year Ended June 30, 2005**

(Dollars in Thousands)

	<u>Homeownership Programs</u>	<u>Multifamily Rental Housing Programs</u>	<u>Other Programs and Accounts</u>	<u>Combined Totals</u>
<b>OPERATING REVENUES</b>				
Interest income:				
Program loans, net	\$ 198,249	\$ 95,216	\$ 6,865	\$ 300,330
Investments, net	88,178	17,280	13,923	119,381
Increase (decrease) in fair value of investments	(546)	1,210	124	788
Loan commitment fees	1,190	5	1,173	2,368
Other loan fees	655		7,339	7,994
Other revenues	68	1,739	77,456	79,263
Total operating revenues	<u>287,794</u>	<u>115,450</u>	<u>106,880</u>	<u>510,124</u>
<b>OPERATING EXPENSES</b>				
Interest	248,406	71,642	6,297	326,345
Amortization of bond discount and deferred losses on refundings of debt	942	449		1,391
Mortgage servicing expenses	13,866	8	210	14,084
Provision for program loan losses	2,432	3,697	704	6,833
Operating expenses			29,199	29,199
Other expenses	18,050	5,331	87,626	111,007
Total operating expenses	<u>283,696</u>	<u>81,127</u>	<u>124,036</u>	<u>488,859</u>
Operating income (loss) before transfers	4,098	34,323	(17,156)	21,265
Transfers, interfund			48,835	48,835
Transfers, intrafund	(16,780)	(8,125)	24,905	
Increase in fund equity	(12,682)	26,198	56,584	70,100
Fund equity at beginning of year	411,903	296,331	411,066	1,119,300
Fund equity at end of year	<u>\$ 399,221</u>	<u>\$ 322,529</u>	<u>\$ 467,650</u>	<u>\$ 1,189,400</u>

**CALIFORNIA HOUSING FINANCE FUND**  
**SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS**  
**Fiscal Year Ended June 30, 2005**  
(Dollars in Thousands)

	<u>Homeownership Programs</u>	<u>Multifamily Rental Housing Programs</u>	<u>Other Programs and Accounts</u>	<u>Combined Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 200,451	\$ 95,559	\$ 5,994	\$ 302,004
Payments to suppliers	(14,791)	(209)	(10,608)	(25,608)
Payments to employees			(18,580)	(18,580)
Other receipts (payments)	83,938	(41,554)	(125,609)	(83,225)
Net cash provided by (used for) operating activities	269,598	53,796	(148,803)	174,591
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Intrafund transfers	(16,780)	(8,125)	24,905	
Due to other government entities			415	415
Net cash provided by (used for) noncapital financing activities	(16,780)	(8,125)	25,320	415
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from sales of bonds and debenture notes	2,036,510	268,430	23,134	2,328,074
Payment of bond principal	(137,193)	(45,377)		(182,570)
Early bond redemptions	(2,378,267)	(147,670)		(2,525,937)
Interest paid on debt	(254,942)	(69,106)	(5,252)	(329,300)
Interfund transfers			48,835	48,835
Additions to deferred costs	(4,089)	(2,179)		(6,268)
Net cash provided by (used for) capital and related financing activities	(737,981)	4,098	66,717	(667,166)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from maturity and sale of investments	5,636,409	490,115	1,393,378	7,519,902
Purchase of investments	(5,257,485)	(556,618)	(1,363,745)	(7,177,848)
Interest on investments, net	104,058	15,136	12,018	131,212
Net cash provided by (used for) investing activities	482,982	(51,367)	41,651	473,266
Net decrease in cash and cash equivalents	(2,181)	(1,598)	(15,115)	(18,894)
Cash and cash equivalents at beginning of year	30,444	10,813	48,479	89,736
Cash and cash equivalents at end of year	\$ 28,263	\$ 9,215	\$ 33,364	\$ 70,842
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 4,098	\$ 34,323	\$ (17,156)	\$ 21,265
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	248,406	71,642	6,297	326,345
Interest on investments	(88,178)	(17,280)	(13,923)	(119,381)
Changes in fair value of investments	546	(1,210)	(124)	(788)
Accretion of capital appreciation bonds	7,820			7,820
Amortization of bond discount	14	148		162
Amortization of deferred losses on refundings of debt	928	301		1,229
Amortization of bond issuance costs	7,976	922	29	8,927
Amortization of deferred revenue	(1,190)	(5)	(1,173)	(2,368)
Depreciation			217	217
Provision for program loan losses	2,432	2,037	2,364	6,833
Provision for yield reduction payments	12,618			12,618
Provision (reversal) for nonmortgage investment excess	1,723	(665)		1,058
Changes in certain assets and liabilities:				
Purchase of program loans	(1,289,645)	(167,399)	(207,344)	(1,664,388)
Collection of principal from program loans, net	1,359,332	129,865	74,306	1,563,503
Interest receivable	2,202	343	(872)	1,673
Accounts receivable	3,525	16	181	3,722
Due from (to) other funds	(1,157)	677	480	
Due from other government entities			362	362
Other assets	322	30	(336)	16
Compensated absences			459	459
Deposits and other liabilities	1,426	51	3,737	5,214
Deferred revenue	(3,600)		3,693	93
Net cash provided by (used for) operating activities	\$ 269,598	\$ 53,796	\$ (148,803)	\$ 174,591

**CALIFORNIA HOUSING FINANCE FUND**  
**SUPPLEMENTAL COMBINING BALANCE SHEET -**  
**HOMEOWNERSHIP PROGRAMS**

**June 30, 2005**

(Dollars in Thousands)

	Home Mortgage Revenue Bonds	Single Family Mortgage Bonds 1995 Issue A	Single Family Mortgage Bonds 1995 Issue B	Single Family Mortgage Bonds II	Draw Down Bonds	Housing Program Bonds	Total Homeownership Programs
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 23,774	\$ 187	\$ 10	\$ 2,248	\$ 2,000	\$ 44	\$ 28,263
Investments	1,523,029	3,031	2,695	46,467	931,591	2,338	2,509,151
Current portion - program loans receivable, net of allowance	72,581	188	232	2,323			75,324
Interest receivable:							
Program loans, net	15,863	46	48	556			16,513
Investments	21,764	69	50	835	970	16	23,704
Accounts receivable	26,214	73	10	1,249			27,546
Due from (to) other funds	(19,575)	(5)	41	(63)	(271)	1,638	(18,235)
Other assets	154			1			155
Total current assets	<u>1,663,804</u>	<u>3,589</u>	<u>3,086</u>	<u>53,616</u>	<u>934,290</u>	<u>4,036</u>	<u>2,662,421</u>
Noncurrent assets:							
Investments	20,538			1,730			22,268
Program loans receivable, net of allowance	3,476,450	6,997	7,933	106,503		44,081	3,641,964
Due to other funds	(11,850)						(11,850)
Deferred financing costs	21,559	47	63	878		334	22,881
Other assets	138						138
Total noncurrent assets	<u>3,506,835</u>	<u>7,044</u>	<u>7,996</u>	<u>109,111</u>	<u>-</u>	<u>44,415</u>	<u>3,675,401</u>
Total assets	<u>\$ 5,170,639</u>	<u>\$ 10,633</u>	<u>\$ 11,082</u>	<u>\$ 162,727</u>	<u>\$ 934,290</u>	<u>\$48,451</u>	<u>\$ 6,337,822</u>
<b>LIABILITIES AND FUND EQUITY</b>							
Current liabilities:							
Current portion - bonds payable, net	\$ 115,121	\$ 385	\$ 485	\$ 4,599	\$ 931,515		\$ 1,052,105
Interest payable	82,704	211	243	3,072	2,398	\$ 284	88,912
Due to other government entities, net							
Compensated absences							
Deposits and other liabilities	6,085	3	6	38	1	22	6,155
Total current liabilities	<u>203,910</u>	<u>599</u>	<u>734</u>	<u>7,709</u>	<u>933,914</u>	<u>306</u>	<u>1,147,172</u>
Noncurrent liabilities:							
Bonds payable, net	4,538,733	7,250	9,000	127,405		50,000	4,732,388
Due to other government entities, net	34,845			3,701	376		38,922
Deferred revenue	19,828			291			20,119
Total noncurrent liabilities	<u>4,593,406</u>	<u>7,250</u>	<u>9,000</u>	<u>131,397</u>	<u>376</u>	<u>50,000</u>	<u>4,791,429</u>
Total liabilities	<u>4,797,316</u>	<u>7,849</u>	<u>9,734</u>	<u>139,106</u>	<u>934,290</u>	<u>50,306</u>	<u>5,938,601</u>
Fund equity:							
Invested in capital assets							
Restricted by indenture	373,323	2,784	1,348	23,621		(1,855)	399,221
Restricted by statute							
Total fund equity	<u>373,323</u>	<u>2,784</u>	<u>1,348</u>	<u>23,621</u>	<u>-</u>	<u>(1,855)</u>	<u>399,221</u>
Total liabilities and fund equity	<u>\$ 5,170,639</u>	<u>\$ 10,633</u>	<u>\$ 11,082</u>	<u>\$ 162,727</u>	<u>\$ 934,290</u>	<u>\$48,451</u>	<u>\$ 6,337,822</u>

**CALIFORNIA HOUSING FINANCE FUND**  
**SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY -**  
**HOMEOWNERSHIP PROGRAMS**  
**Fiscal Year Ended June 30, 2005**  
(Dollars in Thousands)

	Home Mortgage Revenue Bonds	Single Family Mortgage Bonds 1995 Issue A	Single Family Mortgage Bonds 1995 Issue B	Single Family Mortgage Bonds II	Draw Down Bonds	Housing Program Bonds	Total Homeownership Programs
<b>OPERATING REVENUES</b>							
Interest income:							
Program loans, net	\$ 187,421	\$ 738	\$ 711	\$ 8,840		\$ 539	\$ 198,249
Investments, net	61,557	257	169	2,350	\$ 23,795	50	88,178
Decrease in fair value of investments	(545)			(1)			(546)
Loan commitment fees	1,051			139			1,190
Other loan fees	655						655
Other revenues	68						68
Total operating revenues	<u>250,207</u>	<u>995</u>	<u>880</u>	<u>11,328</u>	<u>23,795</u>	<u>589</u>	<u>287,794</u>
<b>OPERATING EXPENSES</b>							
Interest	213,094	704	697	9,120	23,795	996	248,406
Amortization of bond discount and deferred losses on refundings of debt	895			47			942
Mortgage servicing expenses	13,285	34	36	511			13,866
Provision (reversal) for program loan losses	(303)	(10)	(4)	(71)		2,820	2,432
Operating expenses	17,301	84	74	9	465	117	18,050
Other expenses	<u>244,272</u>	<u>812</u>	<u>803</u>	<u>9,616</u>	<u>24,260</u>	<u>3,933</u>	<u>283,696</u>
Total operating expenses	<u>244,272</u>	<u>812</u>	<u>803</u>	<u>9,616</u>	<u>24,260</u>	<u>3,933</u>	<u>283,696</u>
Operating income (loss) before transfers	5,935	183	77	1,712	(465)	(3,344)	4,098
Transfers, interfund							
Transfers, intrafund	(18,734)				465	1,489	(16,780)
Increase (decrease) in fund equity	(12,799)	183	77	1,712	-	(1,855)	(12,682)
Fund equity at beginning of year	386,122	2,601	1,271	21,909			411,903
Fund equity (deficit) at end of year	<u>\$ 373,323</u>	<u>\$ 2,784</u>	<u>\$ 1,348</u>	<u>\$ 23,621</u>	<u>\$ -</u>	<u>\$ (1,855)</u>	<u>\$ 399,221</u>

**CALIFORNIA HOUSING FINANCE FUND**  
**SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS -**  
**HOMEOWNERSHIP PROGRAMS**  
**Fiscal Year Ended June 30, 2005**

(Dollars in Thousands)

	Home Mortgage Revenue Bonds	Single Family Mortgage Bonds 1995 Issue A	Single Family Mortgage Bonds 1995 Issue B	Single Family Mortgage Bonds II	Draw Down Bonds	Housing Program Bonds	Total Homeownership Programs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Receipts from customers	\$ 189,182	\$ 791	\$ 733	\$ 9,206		\$ 539	\$ 200,451
Payments to suppliers	(14,144)	(39)	(40)	(564)		(4)	(14,791)
Payments to employees							
Internal activity - payments to other funds							
Other receipts (payments)	61,276	5,475	3,692	61,695	\$ 423	(48,623)	83,938
Net cash provided by (used for) operating activities	<u>236,314</u>	<u>6,227</u>	<u>4,385</u>	<u>70,337</u>	<u>423</u>	<u>(48,088)</u>	<u>269,598</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Intrafund transfers	(18,734)				465	1,489	(16,780)
Due to other government entities							
Net cash provided by (used for) noncapital financing activities	<u>(18,734)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>465</u>	<u>1,489</u>	<u>(16,780)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from sales of bonds	660,000				1,326,510	50,000	2,036,510
Payment of bond principal	(129,023)	(330)	(650)	(7,190)			(137,193)
Early bond redemptions	(1,780,936)	(8,030)	(5,660)	(88,301)	(495,340)		(2,378,267)
Interest paid on debt	(219,583)	(939)	(857)	(11,184)	(21,667)	(712)	(254,942)
Interfund transfers							
Additions to deferred costs	(3,283)				(465)	(341)	(4,089)
Net cash provided by (used for) capital and related financing activities	<u>(1,472,825)</u>	<u>(9,299)</u>	<u>(7,167)</u>	<u>(106,675)</u>	<u>809,038</u>	<u>48,947</u>	<u>(737,981)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Proceeds from maturity and sale of investments	4,991,154	8,903	6,964	104,288	469,571	55,529	5,636,409
Purchase of investments	(3,816,394)	(6,098)	(4,491)	(71,859)	(1,300,776)	(57,867)	(5,257,485)
Interest on investments, net	77,462	306	208	2,862	23,186	34	104,058
Net cash provided by (used for) investing activities	<u>1,252,222</u>	<u>3,111</u>	<u>2,681</u>	<u>35,291</u>	<u>(808,019)</u>	<u>(2,304)</u>	<u>482,982</u>
Net increase (decrease) in cash and cash equivalents	(3,023)	39	(101)	(1,047)	1,907	44	(2,181)
Cash and cash equivalents at beginning of year	26,797	148	111	3,295	93		30,444
Cash and cash equivalents at end of year	<u>\$ 23,774</u>	<u>\$ 187</u>	<u>\$ 10</u>	<u>\$ 2,248</u>	<u>\$ 2,000</u>	<u>\$ 44</u>	<u>\$ 28,263</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:							
Operating income (loss)	\$ 5,935	\$ 183	\$ 77	\$ 1,712	\$ (465)	\$ (3,344)	\$ 4,098
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:							
Interest expense on debt	213,094	704	697	9,120	23,795	996	248,406
Interest on investments	(61,557)	(257)	(169)	(2,350)	(23,795)	(50)	(88,178)
Changes in fair value of investments	545			1			546
Accretion of capital appreciation bonds	7,806			14			7,820
Amortization of bond discount	10			4			14
Amortization of deferred losses on refundings of debt	885			43			928
Amortization of bond issuance costs	6,641	58	47	758	465	7	7,976
Amortization of deferred revenue	(1,052)			(138)			(1,190)
Depreciation							
Provision (reversal) for program loan losses	(303)	(10)	(4)	(71)		2,820	2,432
Provision for yield reduction payments	12,618						12,618
Provision for nonmortgage investment excess	955			484	284		1,723
Changes in certain assets and liabilities:							
Purchase of program loans	(1,234,418)					(55,227)	(1,289,645)
Collection of principal from program loans, net	1,281,750	5,375	3,598	60,283		8,326	1,359,332
Interest receivable	1,762	53	22	365			2,202
Accounts receivable	2,024	129	179	1,193			3,525
Due from (to) other funds	456	(5)	(60)	(49)	139	(1,638)	(1,157)
Due to other government entities							
Other assets	320			2			322
Compensated absences							
Deposits and other liabilities	1,435	(3)	(2)	(26)		22	1,426
Deferred revenue	(2,592)			(1,008)			(3,600)
Net cash provided by (used for) operating activities	<u>\$ 236,314</u>	<u>\$ 6,227</u>	<u>\$ 4,385</u>	<u>\$ 70,337</u>	<u>\$ 423</u>	<u>\$ (48,088)</u>	<u>\$ 269,598</u>

**CALIFORNIA HOUSING FINANCE FUND**  
**SUPPLEMENTAL COMBINING BALANCE SHEET -**  
**MULTIFAMILY RENTAL HOUSING PROGRAMS**  
**June 30, 2005**

(Dollars in Thousands)

	<u>Multi-Unit Rental Housing Revenue Bonds I</u>	<u>Multi-Unit Rental Housing Revenue Bonds II</u>	<u>Multifamily Loan Purchase Bonds</u>	<u>Multifamily Housing Revenue Bonds</u>	<u>Housing Revenue Bonds (Insured)</u>	<u>Multifamily Housing Revenue Bonds II</u>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 2	\$ 57	\$ 2,333		\$ 1	\$ 68
Investments	22,277	36,203			12,659	10,912
Current portion - program loans receivable, net of allowance	4,871	5,343	23,000		291	1,268
Interest receivable:						
Program loans, net	92	31			86	615
Investments	169	830	1		63	324
Accounts receivable						
Due to other funds			(3)		(11,000)	
Other assets	27					172
Total current assets	<u>27,438</u>	<u>42,464</u>	<u>25,331</u>	<u>-</u>	<u>2,100</u>	<u>13,359</u>
Noncurrent assets:						
Investments	1,357	1,048				9,107
Program loans receivable, net of allowance	127,688	88,313	111,462		12,387	94,913
Due from (to) other funds						
Deferred financing costs	44	114				157
Other assets					11,540	
Total noncurrent assets	<u>129,089</u>	<u>89,475</u>	<u>111,462</u>	<u>-</u>	<u>23,927</u>	<u>104,177</u>
Total assets	<u>\$ 156,527</u>	<u>\$ 131,939</u>	<u>\$ 136,793</u>	<u>\$ -</u>	<u>\$ 26,027</u>	<u>\$ 117,536</u>
<b>LIABILITIES AND FUND EQUITY</b>						
Current liabilities:						
Current portion - bonds payable, net	\$ 300	\$ 3,250				\$ 2,060
Interest payable	362	829	\$ 985			2,909
Due to other government entities, net						
Compensated absences						
Deposits and other liabilities	4	2	1			6
Total current liabilities	<u>666</u>	<u>4,081</u>	<u>986</u>	<u>-</u>	<u>-</u>	<u>4,975</u>
Noncurrent liabilities:						
Bonds payable, net	11,899	25,644	135,807			104,707
Due to other government entities, net						
Deferred revenue						
Total noncurrent liabilities	<u>11,899</u>	<u>25,644</u>	<u>135,807</u>	<u>-</u>	<u>-</u>	<u>104,707</u>
Total liabilities	<u>12,565</u>	<u>29,725</u>	<u>136,793</u>	<u>-</u>	<u>-</u>	<u>109,682</u>
Fund equity:						
Invested in capital assets						
Restricted by indenture	143,962	102,214			\$ 26,027	7,854
Restricted by statute						
Total fund equity	<u>143,962</u>	<u>102,214</u>	<u>-</u>	<u>-</u>	<u>26,027</u>	<u>7,854</u>
Total liabilities and fund equity	<u>\$ 156,527</u>	<u>\$ 131,939</u>	<u>\$ 136,793</u>	<u>\$ -</u>	<u>\$ 26,027</u>	<u>\$ 117,536</u>



<b><u>Multifamily Housing Revenue Bonds III</u></b>	<b><u>Multifamily Draw Down Bonds</u></b>	<b><u>Total Multifamily Rental Housing Programs</u></b>
\$ 6,649	\$ 105	\$ 9,215
525,627	21,610	629,288
113,617		148,390
4,572		5,396
4,475		5,862
16		16
(570)	(48)	(11,621)
297		496
<u>654,683</u>	<u>21,667</u>	<u>787,042</u>
16,986		28,498
766,677		1,201,440
8,174		8,489
3,750		15,290
<u>795,587</u>	<u>-</u>	<u>1,253,717</u>
<u>\$ 1,450,270</u>	<u>\$ 21,667</u>	<u>\$ 2,040,759</u>
\$ 17,133	\$ 21,610	\$ 44,353
17,721	56	22,862
274	1	288
<u>35,128</u>	<u>21,667</u>	<u>67,503</u>
1,370,729		1,648,786
1,910		1,910
31		31
<u>1,372,670</u>	<u>-</u>	<u>1,650,727</u>
1,407,798	21,667	1,718,230
42,472		322,529
<u>42,472</u>	<u>-</u>	<u>322,529</u>
<u>\$ 1,450,270</u>	<u>\$ 21,667</u>	<u>\$ 2,040,759</u>

**CALIFORNIA HOUSING FINANCE FUND**  
**SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY -**  
**MULTIFAMILY RENTAL HOUSING PROGRAMS**  
**Fiscal Year Ended June 30, 2005**  
(Dollars in Thousands)

	<u>Multi-Unit Rental Housing Revenue Bonds I</u>	<u>Multi-Unit Rental Housing Revenue Bonds II</u>	<u>Multifamily Loan Purchase Bonds</u>	<u>Multifamily Housing Revenue Bonds</u>	<u>Housing Revenue Bonds (Insured)</u>	<u>Multifamily Housing Revenue Bonds II</u>
OPERATING REVENUES						
Interest income:						
Program loans, net	\$ 12,761	\$ 9,193	\$ 11,427		\$ 2,368	\$ 7,520
Investments, net	473	1,697	27	\$ 126	582	1,238
Increase (Decrease) in fair value of investments	151	47		(35)		595
Loan commitment fees						
Other loan fees						
Other revenues					1,335	
Total operating revenues	<u>13,385</u>	<u>10,937</u>	<u>11,454</u>	<u>91</u>	<u>4,285</u>	<u>9,353</u>
OPERATING EXPENSES						
Interest	925	2,125	11,391	245	1,519	7,448
Amortization of bond discount and deferred losses on refundings of debt	66	11				71
Mortgage servicing expenses						
Provision (reversal) for program loan losses	576	(73)			(25)	(21)
Operating expenses						
Other expenses	56	41	63	5	485	397
Total operating expenses	<u>1,623</u>	<u>2,104</u>	<u>11,454</u>	<u>250</u>	<u>1,979</u>	<u>7,895</u>
Operating income (loss) before transfers	11,762	8,833	-	(159)	2,306	1,458
Transfers, interfund						
Transfers, intrafund	(955)				(10,602)	1,086
Increase (decrease) in fund equity	10,807	8,833	-	(159)	(8,296)	2,544
Fund equity at beginning of year	133,155	93,381		159	34,323	5,310
Fund equity at end of year	<u>\$ 143,962</u>	<u>\$ 102,214</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,027</u>	<u>\$ 7,854</u>

<b>Multifamily Housing Revenue <u>Bonds III</u></b>	<b>Multifamily Draw Down <u>Bonds</u></b>	<b>Total Multifamily Rental Housing <u>Programs</u></b>
\$ 51,947		\$ 95,216
13,008	\$ 129	17,280
452		1,210
5		5
404		1,739
<u>65,816</u>	<u>129</u>	<u>115,450</u>
47,860	129	71,642
301		449
8		8
3,240		3,697
4,259	25	5,331
<u>55,668</u>	<u>154</u>	<u>81,127</u>
10,148	(25)	34,323
2,321	25	(8,125)
12,469	-	26,198
30,003		296,331
<u>\$ 42,472</u>	<u>\$ -</u>	<u>\$ 322,529</u>

**CALIFORNIA HOUSING FINANCE FUND**  
**SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS -**  
**MULTIFAMILY RENTAL HOUSING PROGRAMS**  
**Fiscal Year Ended June 30, 2005**  
(Dollars in Thousands)

	<b>Multi-Unit Rental Housing Revenue Bonds I</b>	<b>Multi-Unit Rental Housing Revenue Bonds II</b>	<b>Multifamily Loan Purchase Bonds</b>	<b>Multifamily Housing Revenue Bonds</b>	<b>Housing Revenue Bonds (Insured)</b>	<b>Multifamily Housing Revenue Bonds II</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 12,763	\$ 9,300	\$ 11,427		\$ 2,607	\$ 7,565
Payments to suppliers	(16)	(9)	(13)	\$ (4)	(13)	(22)
Payments to employees						
Internal activity - payments to other funds						
Other receipts (payments)	(721)	13,183	22,809		57,215	7,679
Net cash provided by (used for) operating activities	<u>12,026</u>	<u>22,474</u>	<u>34,223</u>	<u>(4)</u>	<u>59,809</u>	<u>15,222</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Intrafund transfers	(955)				(10,602)	1,086
Due to other government entities						
Net cash provided by (used for) noncapital financing activities	<u>(955)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,602)</u>	<u>1,086</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from sales of bonds						
Payment of bond principal	(285)	(3,365)	(24,417)	(140)	(1,085)	(2,280)
Early bond redemptions	(9,475)	(2,965)		(6,820)	(52,660)	(7,740)
Interest paid on debt	(1,204)	(2,306)	(11,444)	(285)	(2,974)	(7,688)
Interfund transfers						
(Additions) deductions to deferred costs					334	
Net cash provided by (used for) capital and related financing activities	<u>(10,964)</u>	<u>(8,636)</u>	<u>(35,861)</u>	<u>(7,245)</u>	<u>(56,385)</u>	<u>(17,708)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from maturity and sale of investments	95,970	9,926		7,279	16,387	17,525
Purchase of investments	(96,476)	(25,351)		(259)	(10,847)	(17,336)
Interest on investments, net	398	1,264	26	167	877	1,213
Net cash provided by (used for) investing activities	<u>(108)</u>	<u>(14,161)</u>	<u>26</u>	<u>7,187</u>	<u>6,417</u>	<u>1,402</u>
Net increase (decrease) in cash and cash equivalents	(1)	(323)	(1,612)	(62)	(761)	2
Cash and cash equivalents at beginning of year	3	380	3,945	62	762	66
Cash and cash equivalents at end of year	<u>\$ 2</u>	<u>\$ 57</u>	<u>\$ 2,333</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 68</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 11,762	\$ 8,833		\$ (159)	\$ 2,306	\$ 1,458
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Interest expense on debt	925	2,125	\$ 11,391	245	1,519	7,448
Interest on investments	(473)	(1,697)	(27)	(126)	(582)	(1,238)
Changes in fair value of investments	(151)	(47)		35		(595)
Accretion of capital appreciation bonds						
Amortization of bond discount	67	10				71
Amortization of deferred losses on refundings of debt						
Amortization of bond issuance costs	7	32			131	15
Amortization of deferred revenue						
Depreciation						
Provision (reversal) for program loan losses	618	(73)			(1,892)	(765)
Provision for yield reduction payments						
Provision (reversal) for nonmortgage investment excess					(786)	
Changes in certain assets and liabilities:						
Purchase of program loans	(7,664)				46,096	
Collection of principal from program loans, net	7,585	13,186	22,859		800	8,782
Interest receivable	2	107			240	44
Accounts receivable				4		
Due from (to) other funds	(655)				11,972	
Due to other government entities						
Other assets	3				10	2
Compensated absences						
Deposits and other liabilities		(2)		(3)	(5)	
Deferred revenue						
Net cash provided by (used for) operating activities	<u>\$ 12,026</u>	<u>\$ 22,474</u>	<u>\$ 34,223</u>	<u>\$ (4)</u>	<u>\$ 59,809</u>	<u>\$ 15,222</u>

<b>Multifamily Housing Revenue Bonds III</b>	<b>Multifamily Draw Down Bonds</b>	<b>Total Multifamily Rental Housing Programs</b>
\$ 51,897 (132)		\$ 95,559 (209)
<u>(141,762)</u>	\$ 43	<u>(41,554)</u>
<u>(89,997)</u>	<u>43</u>	<u>53,796</u>
2,321	25	(8,125)
<u>2,321</u>	<u>25</u>	<u>(8,125)</u>
246,820 (13,805) (46,455) (43,112)	21,610  (21,555) (93)	268,430 (45,377) (147,670) (69,106)
<u>(2,488)</u>	<u>(25)</u>	<u>(2,179)</u>
<u>140,960</u>	<u>(63)</u>	<u>4,098</u>
321,473 (384,739) 11,042	21,555 (21,610) 149	490,115 (556,618) 15,136
<u>(52,224)</u>	<u>94</u>	<u>(51,367)</u>
1,060 5,589	99 6	(1,598) 10,813
<u>\$ 6,649</u>	<u>\$ 105</u>	<u>\$ 9,215</u>
\$ 10,148	\$ (25)	\$ 34,323
47,860 (13,008) (452)	129 (129)	71,642 (17,280) (1,210)
301 712 (5)	25	148 301 922 (5)
4,149		2,037
121		(665)
(205,831) 76,653 (50) 12 (10,682)	42	(167,399) 129,865 343 16 677
15		30
60	1	51
<u>\$ (89,997)</u>	<u>\$ 43</u>	<u>\$ 53,796</u>

**CALIFORNIA HOUSING FINANCE FUND**  
**SUPPLEMENTAL COMBINING BALANCE SHEET -**  
**OTHER PROGRAMS AND ACCOUNTS**  
**June 30, 2005**

(Dollars in Thousands)

	<u>Housing Assistance Trust</u>	<u>Contract Administration Programs</u>	<u>Revolving Credit Agreement</u>	<u>Supplementary Bonds Security Account</u>	<u>Emergency Reserve Account</u>	<u>Loan Servicing</u>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 1,568	\$ 588	\$ 15	\$ 1	\$ 500	\$ 23,982
Investments	74,175	52,369	769	37,255	45,133	126,351
Current portion - program loans receivable, net of allowance	5,625	3,832	13,804			
Interest receivable:						
Program loans, net	1,571	54	116			
Investments	500	395	5	267	327	895
Accounts receivable	8				54	452
Due from (to) other funds	103	(2,810)	428	9,087	11,204	(8,850)
Other assets	1					
Total current assets	<u>83,551</u>	<u>54,428</u>	<u>15,137</u>	<u>46,610</u>	<u>57,218</u>	<u>142,830</u>
Noncurrent assets:						
Investments	941					
Program loans receivable, net of allowance	129,609	68,148	23,119			
Due from other funds				11,850		
Deferred financing costs						
Other assets						
Total noncurrent assets	<u>130,550</u>	<u>68,148</u>	<u>23,119</u>	<u>11,850</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 214,101</u>	<u>\$122,576</u>	<u>\$ 38,256</u>	<u>\$ 58,460</u>	<u>\$ 57,218</u>	<u>\$ 142,830</u>
<b>LIABILITIES AND FUND EQUITY</b>						
Current liabilities:						
Current portion - bonds payable, net						
Interest payable			\$ 67			
Due to (from) other government entities, net	\$ 682	\$ 2,090				
Compensated absences						
Deposits and other liabilities		5,584	38,640	\$ 314		\$ 142,192
Total current liabilities	<u>682</u>	<u>7,674</u>	<u>38,707</u>	<u>314</u>	<u>-</u>	<u>142,192</u>
Noncurrent liabilities:						
Debenture notes payable, net	23,134					
Due from other government entities						
Deferred revenue						
Total noncurrent liabilities	<u>23,134</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>23,816</u>	<u>7,674</u>	<u>38,707</u>	<u>314</u>	<u>-</u>	<u>142,192</u>
Fund Equity:						
Invested in capital assets						
Restricted by indenture						
Restricted by statute	190,285	114,902	(451)	58,146	57,218	638
Total fund equity	<u>190,285</u>	<u>114,902</u>	<u>(451)</u>	<u>58,146</u>	<u>57,218</u>	<u>638</u>
Total liabilities and fund equity	<u>\$ 214,101</u>	<u>\$122,576</u>	<u>\$ 38,256</u>	<u>\$ 58,460</u>	<u>\$ 57,218</u>	<u>\$ 142,830</u>

<u>Loan Warehousing</u>	<u>Operating Account</u>	<u>Total Other Programs and Accounts</u>
\$ 6,621	\$ 89	\$ 33,364
69,864	39,093	445,009
10,110		33,371
468		2,209
1,063	306	3,758
164	26	704
(10,513)	31,207	29,856
	75	76
<u>77,777</u>	<u>70,796</u>	<u>548,347</u>
		941
232,575		453,451
		11,850
	104	104
	906	906
<u>232,575</u>	<u>1,010</u>	<u>467,252</u>
<u>\$ 310,352</u>	<u>\$ 71,806</u>	<u>\$ 1,015,599</u>
\$ 2,994		\$ 3,061
300,000	\$ (211)	302,561
	2,119	2,119
110	3,558	190,398
<u>303,104</u>	<u>5,466</u>	<u>498,139</u>
		23,134
<u>322</u>	<u>26,354</u>	<u>26,676</u>
<u>322</u>	<u>26,354</u>	<u>49,810</u>
303,426	31,820	547,949
	906	906
<u>6,926</u>	<u>39,080</u>	<u>466,744</u>
<u>6,926</u>	<u>39,986</u>	<u>467,650</u>
<u>\$ 310,352</u>	<u>\$ 71,806</u>	<u>\$ 1,015,599</u>

**CALIFORNIA HOUSING FINANCE FUND**  
**SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY -**  
**OTHER PROGRAMS AND ACCOUNTS**  
**Fiscal Year Ended June 30, 2005**  
(Dollars in Thousands)

	<u>Housing Assistance Trust</u>	<u>Contract Administration Programs</u>	<u>Revolving Credit Agreement</u>	<u>Supplementary Bonds Security Account</u>	<u>Emergency Reserve Account</u>	<u>Loan Servicing</u>
OPERATING REVENUES						
Interest income:						
Program loans, net	\$ 3,544	\$ 750	\$ 743			
Investments, net	1,640	1,005	16	\$ 1,277	\$ 1,622	\$ 165
Increase in fair value of investments	124					
Loan commitment fees						
Other loan fees		46				3,534
Other revenues	2,828					74,593
Total operating revenues	<u>8,136</u>	<u>1,801</u>	<u>759</u>	<u>1,277</u>	<u>1,622</u>	<u>78,292</u>
OPERATING EXPENSES						
Interest			614			
Amortization of bond discount and deferred losses on refundings of debt						
Mortgage servicing expenses	8					
Provision (reversal) for program loan losses	1,065	695	939			
Operating expenses						
Other expenses	1	6,349	107	184		80,150
Total operating expenses	<u>1,074</u>	<u>7,044</u>	<u>1,660</u>	<u>184</u>	<u>-</u>	<u>80,150</u>
Operating income (loss) before transfers	7,062	(5,243)	(901)	1,093	1,622	(1,858)
Transfers, interfund		48,835				
Transfers, intrafund	(3,402)	(186)	693		(3,773)	1,250
Increase (decrease) in fund equity	3,660	43,406	(208)	1,093	(2,151)	(608)
Fund equity at beginning of year	186,625	71,496	(243)	57,053	59,369	1,246
Fund equity (deficit) at end of year	<u>\$ 190,285</u>	<u>\$ 114,902</u>	<u>\$ (451)</u>	<u>\$ 58,146</u>	<u>\$ 57,218</u>	<u>\$ 638</u>



<u>Loan Warehousing</u>	<u>Operating Account</u>	<u>Total Other Programs and Accounts</u>
\$ 1,828		\$ 6,865
7,331	\$ 867	13,923
		124
	1,173	1,173
	3,759	7,339
	35	77,456
<u>9,159</u>	<u>5,834</u>	<u>106,880</u>
5,683		6,297
202		210
(1,995)		704
	29,199	29,199
(1,441)	2,276	87,626
<u>2,449</u>	<u>31,475</u>	<u>124,036</u>
6,710	(25,641)	(17,156)
	30,323	48,835
		24,905
<u>6,710</u>	<u>4,682</u>	<u>56,584</u>
216	35,304	411,066
<u>\$ 6,926</u>	<u>\$ 39,986</u>	<u>\$ 467,650</u>

**CALIFORNIA HOUSING FINANCE FUND**  
**SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS -**  
**OTHER PROGRAMS AND ACCOUNTS**  
**Fiscal Year Ended June 30, 2005**  
(Dollars in Thousands)

	<u>Housing Assistance Trust</u>	<u>Contract Administration Programs</u>	<u>Revolving Credit Agreement</u>	<u>Supplementary Bonds Security Account</u>	<u>Emergency Reserve Account</u>	<u>Loan Servicing</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 2,926	\$ 685	\$ 727			
Payments to suppliers	(9)					
Payments to employees						
Internal activity - payments to other funds						
Other receipts (payments)	(24,250)	(36,615)	(1,456)	\$ (1,594)	\$ (4,904)	\$ 7,989
Net cash provided by (used for) operating activities	(21,333)	(35,930)	(729)	(1,594)	(4,904)	7,989
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Intrafund transfers	(3,402)	(186)	693		(3,773)	1,250
Due to other government entities		405				
Net cash provided by (used for) noncapital financing activities	(3,402)	219	693	-	(3,773)	1,250
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from sales of debenture notes	23,134					
Payment of bond principal						
Early bond redemptions						
Interest paid on debt			(573)			
Interfund transfers		48,835				
(Additions) deductions to deferred costs						
Net cash provided by (used for) capital and related financing activities	23,134	48,835	(573)	-	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from maturity and sale of investments	38,254	55,421	629	1,549	12,998	44,932
Purchase of investments	(37,639)	(69,650)	(813)	(1,101)	(5,803)	(51,477)
Interest on investments, net	1,386	750	14	1,147	1,482	(298)
Net cash provided by (used for) investing activities	2,001	(13,479)	(170)	1,595	8,677	(6,843)
Net increase (decrease) in cash and cash equivalents	400	(355)	(779)	1	-	2,396
Cash and cash equivalents at beginning of year	1,168	943	794		500	21,586
Cash and cash equivalents at end of year	\$ 1,568	\$ 588	\$ 15	\$ 1	\$ 500	\$ 23,982
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 7,062	\$ (5,243)	\$ (901)	\$ 1,093	\$ 1,622	\$ (1,858)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Interest expense on debt			614			
Interest on investments	(1,640)	(1,005)	(16)	(1,277)	(1,622)	(165)
Changes in fair value of investments	(124)					
Accretion of capital appreciation bonds						
Amortization of bond discount						
Amortization of deferred losses on refundings of debt						
Amortization of bond issuance costs						
Amortization of deferred revenue						
Depreciation						
Provision (reversal) for program loan losses	3,277	836	246			
Provision for yield reduction payments						
Provision for nonmortgage investment excess						
Changes in certain assets and liabilities:						
Purchase of program loans	(41,986)	(44,453)	(23,617)			
Collection of principal from program loans, net	12,267	12,083	26,993			
Interest receivable	(619)	(65)	(16)			
Accounts receivable	22				(48)	275
Due from (to) other funds	75	1,544	(429)	(1,594)	(4,856)	2,808
Due to other government entities	362					
Other assets						
Compensated absences						
Deposits and other liabilities	(29)	373	(3,603)	184		6,929
Deferred revenue						
Net cash provided by (used for) operating activities	\$ (21,333)	\$ (35,930)	\$ (729)	\$ (1,594)	\$ (4,904)	\$ 7,989

<u>Loan Warehousing</u>	<u>Operating Account</u>	<u>Total Other Programs and Accounts</u>
\$ 1,656		\$ 5,994
(200)	\$ (10,399)	(10,608)
	(18,580)	(18,580)
(68,173)	3,394	(125,609)
<u>(66,717)</u>	<u>(25,585)</u>	<u>(148,803)</u>
	30,323	24,905
	10	415
<u>-</u>	<u>30,333</u>	<u>25,320</u>
		23,134
(4,679)		(5,252)
		48,835
<u>(4,679)</u>	<u>-</u>	<u>66,717</u>
1,203,254	36,341	1,393,378
(1,155,386)	(41,876)	(1,363,745)
6,841	696	12,018
<u>54,709</u>	<u>(4,839)</u>	<u>41,651</u>
(16,687)	(91)	(15,115)
23,308	180	48,479
<u>\$ 6,621</u>	<u>\$ 89</u>	<u>\$ 33,364</u>
\$ 6,710	\$ (25,641)	\$ (17,156)
5,683		6,297
(7,331)	(867)	(13,923)
		(124)
	29	29
	(1,173)	(1,173)
	217	217
(1,995)		2,364
(97,288)		(207,344)
22,963		74,306
(172)		(872)
(68)		181
4,782	(1,850)	480
		362
	(336)	(336)
	459	459
11	(128)	3,737
(12)	3,705	3,693
<u>\$ (66,717)</u>	<u>\$ (25,585)</u>	<u>\$ (148,803)</u>

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
California Housing Finance Agency  
Sacramento, California

We have audited the accompanying balance sheets of the California Housing Loan Insurance Fund (the "Fund"), which is administered by the California Housing Finance Agency (the "Agency"), a component unit of the State of California, as of December 31, 2004 and 2003, and the related statements of revenues, expenses, and changes in fund equity, and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2004 and 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Agency's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

*Deloitte + Touche LLP*

April 29, 2005

## CALIFORNIA HOUSING LOAN INSURANCE FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

---

#### Introduction – The California Housing Finance Agency

The California Housing Finance Agency (the “Agency”) was created in 1975 by an act of the California Legislature and commenced operations in 1976. The Agency is a component unit of the State of California (the “State”) and is included in the State’s Comprehensive Annual Financial Report. The Agency is authorized to administer the activities of the California Housing Loan Insurance Fund (the “Fund”), the California Housing Finance Fund (the “CHFF”) and two State general obligation bond funds. The following Management Discussion and Analysis applies only to the activities of the California Housing Loan Insurance Fund and should be read in conjunction with the Fund’s financial statements and the notes to the financial statements. The Agency is entirely self-funded and does not draw upon the general taxing authority of the State.

The Agency is authorized to use the Fund’s assets as at-risk capital in support of mortgage insurance programs which finance the acquisition, new construction or rehabilitation of residential structures in California. The Fund insures loans made by the Agency; loans made by lenders for securitization by the Federal National Mortgage Association (the “FNMA”) and Federal Home Loan Mortgage Corporation (the “FHLMC”); and loans made by localities, non-profit agencies and the California State Teachers’ Retirement System. In conducting business the Agency is authorized to reinsure any risk undertaken by the Fund.

While the Fund is subject to the same statutory requirements as private mortgage insurance companies in respect to the maintenance of policyholders’ surpluses, the Fund is exempt from regulatory control by the State Department of Insurance. The claims-paying ability of the Fund has been assigned a rating of A+ by Standard & Poor’s.

Underwriting, acquisition and issuance expenses are charged directly to the Fund as well as loss and loss adjustment expenses. Certain administrative and operating expenses, including office space, business services and supplies, legal services, accounting services, information technology support and human resource support services, are provided by the Agency and indirectly charged to the Fund.

#### Financial Highlights 2004 – 2003

- The Fund drew \$8.7 million of the \$85 million allocated to this purpose from the voter approved Proposition 46, *Housing and Emergency Shelter Trust Fund Act of 2002* (“Prop 46”). These funds are invested and available to be utilized to pay claims as needed.
- Insurance in force has decreased by \$69 million, or 8%, to \$797 million as of December 31, 2004 compared to December 31, 2003. This decrease in insured loans is primarily due to the number of policy cancellations from the prepayment of the underlying loans as borrowers took advantage of historic low mortgage rates during the year to refinance their homes.
- New insurance written was \$355 million during fiscal year 2004 compared to \$341 million during fiscal year 2003. The \$14 million increase is primarily a result of a continued emphasis on the Agency’s programs.
- Continuing the trend since fiscal year 2001 and largely due to the rapid price appreciation of homes in California, insurance claims activity remained at very low levels. Insurance claim payments were \$58,400 and \$22,000 in fiscal year 2004 and 2003, respectively.
- This is the first full year of operations of our reinsurance treaty and administrative services agreement with Genworth Financial (“Genworth”), previously known as GE Mortgage Insurance Corporation (“GEMICO”). This insurance treaty cedes to Genworth a 75% quota share of the insurance risk and 64.5% of the premium collected for most loans insured by the Fund.
- Operating income decreased \$3.7 million or 96% to \$168,000 during fiscal year 2004 compared to operating income of \$3.9 million during fiscal year 2003; however, the Fund remains financially strong and has fund equity of \$55.9 million, at December 31, 2004. Most of the reduction in operating income is a result of the decrease of earned premiums due to insurance cancellations from prepayments and the decrease in insurance in force.

## Fiscal Year 2004 Compared to Fiscal Year 2003

### Condensed Balance Sheets

The following table presents condensed balance sheets for the Fund as of December 31, 2004 and December 31, 2003 and the change from year to year (dollars in thousands):

	<u>2004</u>	<u>2003</u>	<u>Change</u>
<b>Assets</b>			
Cash, cash equivalents and investments	\$ 55,583	\$ 48,648	\$ 6,935
Other assets	<u>1,929</u>	<u>1,601</u>	<u>328</u>
<b>TOTAL ASSETS</b>	<u>\$ 57,512</u>	<u>\$ 50,249</u>	<u>\$ 7,263</u>
<b>Liabilities and Fund Equity</b>			
<b>Liabilities:</b>			
Unpaid losses and loss adjustment expenses	\$ 320	\$ 810	\$ (490)
Unearned premiums	923	1,305	(382)
Accounts payable and other liabilities	<u>354</u>	<u>1,096</u>	<u>(742)</u>
<b>Total liabilities</b>	1,597	3,211	(1,614)
<b>Fund Equity:</b>			
Invested in capital assets	9	13	(4)
Restricted by statute	<u>55,906</u>	<u>47,025</u>	<u>8,881</u>
<b>Total fund equity</b>	<u>55,915</u>	<u>47,038</u>	<u>8,877</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 57,512</u>	<u>\$ 50,249</u>	<u>\$ 7,263</u>

**Assets**— Total assets of the Fund were \$57.5 million as of December 31, 2004, an increase of \$7.3 million or 14% from December 31, 2003. Of the Fund's assets, more than 97% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash and investments were \$55.6 million as of December 31, 2004, an increase of \$7 million from December 31, 2003. The increase is primarily related to the deposit of \$8.7 million of Proposition 46 funds to be utilized by the Fund to pay claims. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

Other assets were \$1.9 million as of December 31, 2004, an increase of \$328,000 from December 31, 2003. The increase is primarily in the amount which was due from the California Housing Finance Fund. As of December 31, 2004, this amount due was \$1.3 million, an increase of \$945,000 from December 31, 2003. This increase was mainly comprised of the litigation expense reimbursement due from the Agency.

**Liabilities**—The Fund's liabilities were \$1.6 million as of December 31, 2004, a decrease of \$1.6 million or 50% from December 31, 2003.

The reserve for unpaid losses and loss adjustment expenses were \$320,000 as of December 31, 2004, a decrease of \$490,000 from December 31, 2003. The decrease in the loss reserve is the result of the Agency entering into a reinsurance contract with Genworth under which the level of reinsurance has been increased over the prior contract resulting in a reduction in required reserves. Genworth assumes 75% of the risk on the loans under reinsurance which represent 98% of the insured loans at December 31, 2004. As of December 31, 2004, 96 insured loans with balances aggregating \$12.7 million were either reported as delinquent by the lender or, delinquent but not reported, while 147 insured loans with balances aggregating \$19.4 million were reported or delinquent and not reported by lenders as of December 31, 2003.

Unearned premiums were \$924,000 as of December 31, 2004, a decrease of \$381,000 from December 31, 2003. The decrease in unearned premiums is the continuation of an expected trend due to a change in premium collection practices. Beginning in 1996, management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments, which are received in advance and deferred and earned over a one-year period. During the fiscal year ending December 31, 2004 the Fund experienced high levels of prepayments of its older loan portfolio, which also contributed to the decrease in unearned premiums.

Accounts payable and other liabilities were \$354,000 as of December 31, 2004, a decrease of \$742,000 from December 31, 2003. This decrease is largely attributable to amounts paid in 2004 for legal fees incurred in 2003.

**Fund Equity**—All of the Fund's equity is restricted or invested in capital assets. The Fund's equity is restricted pursuant to the Agency's enabling legislation. Total equity of the Fund grew by \$8.9 million as a result of a deposit of \$8.7 million from Prop 46 monies.

### Condensed Statements of Revenues and Expenses

The following table presents condensed statements of revenues and expenses for the Fund for the fiscal years ended December 31, 2004 and December 31, 2003 and the change from year to year (dollars in thousands):

	<u>2004</u>	<u>2003</u>	<u>Change</u>
OPERATING REVENUES			
Premiums earned	\$ 5,926	\$ 9,205	\$ (3,279)
Investment income	872	795	77
Other revenues	<u>13</u>	<u>372</u>	<u>(359)</u>
Total operating revenues	<u>6,811</u>	<u>10,372</u>	<u>(3,561)</u>
OPERATING EXPENSES			
Loss and loss adjustment recoveries	(450)	(803)	353
Operating expenses	7,089	7,688	(599)
Other expenses (benefits)	<u>4</u>	<u>(417)</u>	<u>421</u>
Total operating expenses	<u>6,643</u>	<u>6,468</u>	<u>175</u>
Operating income	<u>\$ 168</u>	<u>\$ 3,904</u>	<u>\$ (3,736)</u>

**Operating Revenues**—Operating revenues were \$6.8 million during fiscal year 2004 compared to \$10.4 million during fiscal year 2003, a decrease of \$3.6 million or 34%.

Premiums earned in fiscal year 2004 decreased by \$3.3 million, or 36%, compared to premiums earned in fiscal year 2003. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force was \$797 million and \$866 million in fiscal years 2004 and 2003, respectively.

Investment income increased \$76,741 to \$871,838 in fiscal year 2004 from \$795,097 in fiscal year 2003. This increase was due to the increase in the investment portfolio. Starting in 2004, SMIF interest earnings were paid quarterly rather than semi-annually as in the past. SMIF interest rates for the past two years are shown in the following table:

<u>Interest Payment Periods</u>	<u>Fiscal Year 2004</u>	<u>Interest Payment Periods</u>	<u>Fiscal Year 2003</u>
January - March	1.467 %	January - June	1.859 %
April - June	1.441 %	July - December	1.590 %
July - September	1.665 %		
October - December	1.995 %		



**Operating Expenses**—Total operating expenses were \$6.6 million during fiscal year 2004 compared to \$6.4 million during fiscal year 2003, an increase of \$175,000 or 3%.

Loss and loss adjustment recoveries decreased by \$353,324. The decrease is attributable to a reduction in delinquent loans.

The Fund's operating expenses were \$7.1 million during fiscal year 2004 compared to \$7.7 million during fiscal year 2003, a decrease of \$599,000 or 8%. The decrease is primarily attributable to the decrease in premiums ceded.

Other expenses in fiscal year 2004 increased by \$421,000 when compared to other expenses incurred in fiscal year 2003. The decrease is largely attributable to a transfer to the California Housing Finance Fund of the mortgage loan portfolio in 2003 and the reversal of the allowance for loan losses associated with that portfolio.

**Operating Income**—Operating income for fiscal year 2004 was \$168,000 compared to \$3.9 million in fiscal year 2003, a decrease of \$3.7 million or 96%. The reduction in operating income is a result of the decrease of earned premiums due to insurance cancellations from prepayments and the decrease in insurance in force.

## Fiscal Year 2003 Compared to Fiscal Year 2002

### Condensed Balance Sheets

The following table presents condensed balance sheets for the Fund as of December 31, 2003 and December 31, 2002 and the change from year to year (dollars in thousands):

	<u>2003</u>	<u>2002</u>	<u>Change</u>
<b>Assets</b>			
Cash, cash equivalents and investments	\$ 48,648	\$ 36,666	\$ 11,982
Deposit with reinsurer	-	8,482	(8,482)
Program loans receivables net	-	4,828	(4,828)
Other assets	<u>1,601</u>	<u>3,368</u>	<u>(1,767)</u>
TOTAL ASSETS	<u>\$ 50,249</u>	<u>\$ 53,344</u>	<u>\$ (3,095)</u>
<b>Liabilities and Fund Equity</b>			
Liabilities:			
Unpaid losses and loss adjustment expenses	\$ 810	\$ 1,641	\$ (831)
Unearned premiums	1,305	1,936	(631)
Accounts payable and other liabilities	<u>1,096</u>	<u>6,634</u>	<u>(5,538)</u>
Total liabilities	3,211	10,211	(7,000)
Fund Equity:			
Invested in capital assets	13	12	1
Restricted by statute	<u>47,025</u>	<u>43,121</u>	<u>3,904</u>
Total fund equity	<u>47,038</u>	<u>43,133</u>	<u>3,905</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 50,249</u>	<u>\$ 53,344</u>	<u>\$ (3,095)</u>

**Assets**— Total assets of the Fund were \$50.3 million as of December 31, 2003, a decrease of \$3.1 million or 6% from December 31, 2002. Of the Fund's assets, more than 97% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash and investments were \$48.6 million as of December 31, 2003, an increase of \$12 million from December 31, 2002. The increase is primarily related to the return of the deposit from Hannover Ruckversicherungs-Aktiengesellschaft of \$8.5 million in January 2003 as the result of the Agency's termination of that reinsurance agreement effective December 31, 2002. Also contributing to the increase was the positive cash flow from mortgage insurance operations. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

As of November 1, 2003 all remaining outstanding loans receivable were purchased by the CHFF based on the then unpaid principal balance of the loans, which in conjunction with the increased prepayment activity resulted in a decrease in loans receivable of \$4.8 million.

Other assets were \$1.6 million as of December 31, 2003, a decrease of \$1.8 million from December 31, 2002. The decrease is primarily due to two factors: (1) at December 31, 2002 there was an accounts receivable of \$222,000 for accrued interest receivable on loans receivable, whereas, there was none at December 31, 2003 and (2) the amount due from servicers at December 31, 2002 of \$1.5 million decreased to \$562,000 at December 31, 2003, primarily as a result of a greater percentage of premiums being collected monthly as opposed to annually and increased efficiencies in the administration of the portfolio.

**Liabilities**— The Fund's liabilities were \$3.2 million as of December 31, 2003, a decrease of \$7.0 million or 69% from December 31, 2002.

The reserve for unpaid losses and loss adjustment expenses were \$810,000 as of December 31, 2003, a decrease of \$831,000 from December 31, 2002. The decrease in the loss reserve is the result of the Agency entering into a reinsurance contract with Genworth (formerly known as GEMICO) under which the level of reinsurance has been increased over the prior contract resulting in a reduction in required reserves. Genworth assumes 75% of the risk on the loans under reinsurance which represent 98% of the insured loans at December 31, 2003. As of December 31, 2003, 147 insured loans with balances aggregating \$19.4 million were either reported as delinquent by the lender or, delinquent but not reported, while 146 insured loans with balances aggregating \$18.1 million were reported or delinquent and not reported by lenders as of December 31, 2002.

Unearned premiums were \$1.3 million as of December 31, 2003, a decrease of \$631,000 from December 31, 2002. The decrease in unearned premiums is the continuation of an expected trend due to a change in premium collection practices. Beginning in 1996 management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments which are received in advance and deferred and earned over a one year period. During the fiscal year ending December 31, 2003 the Fund experienced high levels of prepayments of its older loan portfolio which also contributed to the decrease in unearned premiums.

Accounts payable and other liabilities were \$1.1 million as of December 31, 2003, a decrease of \$5.5 million from December 31, 2002. This decrease is largely attributable to two factors: (1) management's decision to repay the notes to Allstate Insurance Company, which resulted in a \$2.8 million decrease in notes payable and (2) management's decision to repay the \$2.5 million loan from CHFF for the purchase of down payment assistance loans.

**Fund Equity**— All of the Fund's equity is restricted or invested in capital assets. The Fund's equity is restricted pursuant to the Agency's enabling legislation. Total equity of the Fund grew by \$3.9 million as a result of operating income.

## Condensed Statements of Revenues and Expenses

The following table presents condensed statements of revenues and expenses for the Fund for the fiscal years ended December 31, 2003 and December 31, 2002 and the change from year to year (dollars in thousands):

	<u>2003</u>	<u>2002</u>	<u>Change</u>
OPERATING REVENUES			
Premiums earned	\$ 9,205	\$ 13,037	\$ (3,832)
Investment income	795	882	(87)
Other revenues	<u>372</u>	<u>340</u>	<u>32</u>
Total operating revenues	<u>10,372</u>	<u>14,259</u>	<u>(3,887)</u>
OPERATING EXPENSES			
Loss and loss adjustment (recoveries) expenses	(803)	361	(1,164)
Operating expenses	7,688	4,341	3,347
Other (benefits) / expenses	<u>(417)</u>	<u>342</u>	<u>(759)</u>
Total operating expenses	<u>6,468</u>	<u>5,044</u>	<u>1,424</u>
Operating income	<u>\$ 3,904</u>	<u>\$ 9,215</u>	<u>\$ (5,311)</u>

**Operating Revenues**— Operating revenues were \$10.4 million during fiscal year 2003 compared to \$14.3 million during fiscal year 2002, a decrease of \$3.9 million or 27%.

Premiums earned in fiscal year 2003 decreased by \$3.9 million, or 29%, compared to premiums earned in fiscal year 2002. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force was \$866 million and \$1.39 billion in fiscal years 2003 and 2002 respectively.

Although the Fund's investment portfolio increased during fiscal year 2003, investment income decreased \$87,000 to \$795,000 in fiscal year 2003 from \$882,000 in fiscal year 2002. The increase in the level of the investments was not enough to offset the impact of the continuing drop in the rates earned. For the past two years, the SMIF paid interest at the rates and for the periods as shown in the following table:

<u>Interest Payment Periods</u>	<u>Fiscal Year 2003</u>	<u>Interest Payment Periods</u>	<u>Fiscal Year 2002</u>
January - June	1.859 %	January - June	2.853 %
July - December	1.590 %	July - December	2.468 %

**Operating Expenses**— Operating expenses were \$6.4 million during fiscal year 2003 compared to \$5.0 million during fiscal year 2002, an increase of \$1.4 million or 28%.

Loss and loss adjustment expenses decreased by \$1.2 million. The decrease is attributable to the decrease in the loss reserve as a result of the Agency entering into a reinsurance contract with Genworth in which Genworth assumes 75% of the insured risk on most loans insured by the Fund thus decreasing the Fund's exposure to claim losses.

The Fund's operating expenses were \$7.7 million during fiscal year 2003 compared to \$4.3 million during fiscal year 2002, an increase of \$3.4 million or 78%. The increase is primarily attributable to the increase in premiums ceded and administrative fees of \$5.5 million during fiscal year 2003 compared to \$2.5 million during fiscal year 2002.

Other expenses in fiscal year 2003 decreased by \$759,000 when compared to other expenses incurred in fiscal year 2002. The decrease is largely attributable to a decrease in the provision for loan losses of approximately \$655,000, which is due to the high level of prepayments in the mortgage loan portfolio during fiscal year 2003 and the purchase of the remaining loans as of November 1, 2003 by the California Housing Finance Fund.

***Operating Income***— Operating income for fiscal year 2003 was \$3.9 million compared to \$9.2 million in fiscal year 2002, a decrease of \$5.3 million or 58%. This decrease in income is primarily a result of the Genworth reinsurance treaty which provides for a true transfer of risk of a greater quota share of claims in exchange for a higher share of the premiums.

**CALIFORNIA HOUSING LOAN INSURANCE FUND****BALANCE SHEETS****DECEMBER 31, 2004 AND 2003**

<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 32,990	\$ 64,059
Investment in Surplus Money Investment Fund	55,550,000	48,584,000
Interest receivable	281,672	384,831
Due from California Housing Finance Fund	551,764	-
Other assets	<u>782,289</u>	<u>950,854</u>
Total current assets	<u>57,198,715</u>	<u>49,983,744</u>
NONCURRENT ASSETS—Other assets	<u>313,057</u>	<u>265,313</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 57,511,772</u></u>	<u><u>\$ 50,249,057</u></u>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Reserves for unpaid losses and loss adjustment expenses	\$ 320,023	\$ 809,989
Unearned premiums	815,355	1,124,250
Reinsurance payable	266,560	303,425
Accounts payable and other liabilities	87,315	741,337
Due to California Housing Finance Fund	<u>-</u>	<u>51,163</u>
Total current liabilities	<u>1,489,253</u>	<u>3,030,164</u>
NONCURRENT LIABILITIES—Unearned premiums	107,518	181,114
Total liabilities	<u>1,596,771</u>	<u>3,211,278</u>
CONTINGENCIES (Note 8)		
<b>FUND EQUITY:</b>		
Invested in capital assets	9,339	13,389
Restricted by statute	<u>55,905,662</u>	<u>47,024,390</u>
Total fund equity	<u>55,915,001</u>	<u>47,037,779</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u><u>\$ 57,511,772</u></u>	<u><u>\$ 50,249,057</u></u>

See notes to financial statements.

**CALIFORNIA HOUSING LOAN INSURANCE FUND****STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY****FISCAL YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
OPERATING REVENUES:		
Premiums earned	\$ 5,926,550	\$ 9,204,693
Investment income	871,838	795,097
Other revenues	<u>12,927</u>	<u>372,420</u>
Total operating revenues	<u>6,811,315</u>	<u>10,372,210</u>
OPERATING EXPENSES:		
Loss and loss adjustment expenses (recoveries)	(450,429)	(803,753)
Operating expenses	7,089,471	7,688,441
Other expenses (benefits)	<u>4,051</u>	<u>(416,816)</u>
Total operating expenses	<u>6,643,093</u>	<u>6,467,872</u>
OPERATING INCOME	168,222	3,904,338
TRANSFER FROM PROP 46 (Note 7)	8,709,000	-
FUND EQUITY—Beginning of year	<u>47,037,779</u>	<u>43,133,441</u>
FUND EQUITY—End of year	<u>\$ 55,915,001</u>	<u>\$ 47,037,779</u>

See notes to financial statements.

# CALIFORNIA HOUSING LOAN INSURANCE FUND

## STATEMENTS OF CASH FLOWS

FISCAL YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 5,750,495	\$ 9,644,971
Payments to suppliers	(7,196,424)	(6,113,833)
Payments to employees	(672,620)	(880,190)
Internal activity—payments (to) from other funds	(602,928)	300,398
Other receipts (payments)	(27,589)	11,096,066
Net cash (used in) provided by operating activities	(2,749,066)	14,047,412
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payment on notes	-	(2,818,141)
Interest paid on notes	-	(71,516)
Net cash used in noncapital financing activities	-	(2,889,657)
CASH FLOWS PROVIDED BY RELATED FINANCING ACTIVITIES—Transfer from Prop 46 (Note 7)	8,709,000	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	4,667,000	8,557,000
Purchase of investments	(11,633,000)	(21,817,000)
Interest on investments	974,997	824,348
Net cash used in investing activities	(5,991,003)	(12,435,652)
DECREASE IN CASH AND CASH EQUIVALENTS	(31,069)	(1,277,897)
CASH AND CASH EQUIVALENTS—Beginning of year	64,059	1,341,956
CASH AND CASH EQUIVALENTS—End of year	\$ 32,990	\$ 64,059
RECONCILIATION OF OPERATING INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 168,222	\$ 3,904,338
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Interest paid to Allstate	-	52,035
Interest on investments	(871,838)	(795,097)
Allowance for loan losses	-	(654,944)
Unpaid loss and loss adjustment expenses	(489,966)	(830,653)
Depreciation expense	4,051	3,795
Deferred policy acquisition expense	314,558	327,659
Changes in certain operating assets and liabilities:		
Interest receivable	-	6,726
Deposit with reinsurer	-	8,481,553
Program loans receivable	-	5,483,192
Other assets	(197,786)	890,904
Unearned premiums	(382,491)	(630,405)
Payable to reinsurer	(36,865)	283,795
Accounts payable and other liabilities	(654,023)	(368,700)
Due to California Housing Finance Fund	(602,928)	(2,106,786)
Net cash (used in) provided by operating activities	\$ (2,749,066)	\$ 14,047,412

See notes to financial statements.

## CALIFORNIA HOUSING LOAN INSURANCE FUND

### NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2004 AND 2003

---

#### 1. AUTHORIZING LEGISLATION AND ORGANIZATION

The California Housing Loan Insurance Fund (the "Fund") is one of two continuously appropriated funds administered by the California Housing Finance Agency (the "Agency"). The Agency was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act (the "Act"), as amended, as a public instrumentality, a political subdivision and a component unit of the State of California (the "State"), and is in the State's Annual Financial Report, and administers the activities of the Fund and the California Housing Finance Fund (the "CHFF"). These funds allow the Agency to carry out its purpose of meeting the housing needs of persons and families of low and moderate income within the State. The Agency is authorized to insure mortgage loans, and to issue bonds, notes and other obligations to fund loans to qualified borrowers for single family houses and multifamily developments. The Agency has no taxing power and is exempt from Federal income taxes and state franchise taxes.

The accompanying financial statements are the statements of the Fund and do not include the financial position or the results of operations of the CHFF. As of June 30, 2004 the CHFF had total assets of \$9,681,427 and fund equity of \$1,119,300 (not covered by this Independent Auditors' Report).

The Agency is also authorized to use the Fund to provide mortgage insurance for loans made by the Agency and others which finance the acquisition, new construction or rehabilitation of residential structures in California. Total risk in-force was \$384,482,000 and \$390,810,000 at December 31, 2004 and 2003, respectively. Over 95% of the insured first mortgage loans outstanding at December 31, 2004 have loan to value ratios, measured as of the funding date of the loan, equal to or greater than 90%.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation and Accounting**—The Fund is accounted for as an enterprise fund. Accordingly the accompanying financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles") which differ from statutory accounting practices followed by insurance companies in reporting to insurance regulatory authorities.

**Accounting and Reporting Standards**—The Agency follows the *Standards of Governmental Accounting and Financial Reporting*, as promulgated by the *Governmental Accounting Standards Board* ("GASB"). The Agency has adopted the option under GASB No. 20 which allows the Agency to apply all GASB pronouncements and only *Financial Accounting Standards Board* ("FASB") pronouncements which date prior to November 30, 1989.

**Use of Estimates**—The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

**Cash and cash equivalents**—The Agency considers cash on hand and cash on deposit with the State Controller's office other than the investment in the State's Surplus Money Investment Fund (the "SMIF") to be cash and cash equivalents.

**Investments**—The Agency invests the Fund's cash in the SMIF, which represents a portion of the State's Pooled Money Investment account ("PMIA"). These PMIA funds are on deposit within the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. Investments in SMIF are recorded at fair value and are not required to be categorized under GASB Statement No. 3. The office of the State Treasurer of California issues a Pooled Money Investment Board Report with information on the PMIA's portfolio composition. A copy of that report may be obtained from the Office of the State Treasurer, 915 Capitol Mall, Room 106, Sacramento, CA 95814 or via the Internet at [www.treasurer.ca.gov](http://www.treasurer.ca.gov).



**Deferred Policy Acquisition Costs**—The Fund defers certain costs related to the acquisition of new insurance policies and amortizes these costs over the expected life of the policies. These costs are associated with the acquisition, underwriting and processing of new policies. Deferred policy acquisition costs were \$558,408 and \$469,721 for the years ended December 31, 2004 and 2003, respectively, and are included as part of Other Assets on the Balance Sheets.

**Reserves for Unpaid Losses and Loss Adjustment Expenses**—The Fund establishes reserves for losses and loss adjustment expenses, to recognize the estimated liability for potential losses and related loss expenses in connection with borrower default on mortgage payments. The liability for unpaid losses and loss adjustment expenses resulting from mortgage insurance is an estimate based upon the unpaid delinquent balance on mortgage loans reported by lenders as of the close of the accounting period, estimates of incurred but not reported (“IBNR”) claims and historical and expected frequency and loss severity information.

There is a high level of uncertainty inherent in the evaluation of the required loss and loss adjustment expense reserves. Management has selected frequency of claims paid and severity loss ratios that it believes are reasonable and reflective of anticipated ultimate experience. The ultimate costs of claims are dependent upon future events, the outcomes of which are affected by many factors. The Agency’s claim-reserving procedures and settlement practices, economic inflation, court rulings, real estate market conditions and many other economic, scientific, legal, political, and social factors all can have significant effects on the ultimate cost of claims.

Changes in operations and management practices may also cause actual developments to vary from past experience. Since the emergence and disposition of claims are subject to uncertainties, the net amounts that will ultimately be paid to settle the liability may vary significantly from the estimated amounts provided for in the accompanying financial statements. Any adjustments that may be material to reserves are reflected in the operating results of the periods in which they are made.

**Fund Equity**—Fund equity is classified as invested in Capital Assets or Restricted Equity. Invested in Capital Assets represents investments in office equipment and furniture net of depreciation. Restricted Equity represents equity that is restricted pursuant to the Agency’s enabling legislation.

**Operating Revenues and Expenses**—The Fund’s primary operating revenue is derived from premiums earned on private mortgage insurance written. The primary expenses are the expenses associated with the underwriting, acquisition, issuance, administration and the reinsurance of private mortgage insurance products and policies.

**Recognition of Premium Income**—Primary mortgage insurance policies are contracts that are generally non-cancelable by the insurer, and provide payment of premiums on a monthly, annual or single basis. Premiums written on a monthly basis are earned as coverage is provided. Premiums written on an annual basis are deferred as unearned premiums and amortized on a monthly pro rata basis over the year of coverage. Primary mortgage insurance premiums written on policies covering more than one year are referred to as single premiums. A portion of single premiums is recognized immediately in earnings, and the remaining portion is deferred as unearned premiums and amortized over the expected life of the policy.

**Reinsurance**—Effective March 1, 2003, the Agency entered into a reinsurance treaty and administrative services agreement with Genworth Financial (“Genworth”). This agreement cedes to Genworth a 75% quota share of the insurance risk for most loans insured by the Fund and provides for certain administrative services to be performed by Genworth. The Fund uses reinsurance to reduce net risk in force and optimize capital allocation.

**Recent Accounting Pronouncements**—In March 2003, GASB issued Statement of Governmental Accounting Standards (“SGAS”) No. 40, *Deposit and Investment Risk Disclosures, an amendment of SGAS No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. SGAS No. 40 requires disclosures regarding additional risks to which governments may be exposed. The Agency plans to adopt the provisions of SGAS No. 40 for the Fund effective January 1, 2005. SGAS No. 40 requires disclosure of information covering investment credit risk disclosures; interest rate disclosures that include investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; and foreign exchange exposures that would indicate the foreign investment’s denomination. Management does not expect that the adoption of this statement will have a significant impact on its financial position or results of operations.

In December 2004, GASB issued SGAS No. 46, *Net Assets restricted by Enabling Legislation*, an amendment of SGAS No. 34, effective for periods beginning after June 15, 2005. SGAS No. 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Management of the Agency has not completed the process of evaluating the impact that will result from adopting SGAS No. 46.

**Reclassifications**—Certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

### 3. RESERVES FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following tables summarize the changes in the reserves for unpaid losses and loss adjustment expenses for the years ended December 31, 2004 and 2003. The first table presents reserves on a gross basis (before reinsurance) and the second table presents the reserve on a net basis (after reinsurance). The total net reserve for loss and loss adjustment is reflected in the financial statements.

#### Gross

	2004	2003
Gross reserve for loss and loss adjustment, beginning of year balance	\$ 2,128,271	\$ 1,640,643
Incurring (recovered) related to:		
Provision attributable to the current year	457,437	1,724,971
Change in provision attributable to prior years	<u>(1,583,746)</u>	<u>(1,215,086)</u>
Total (recovered) incurred	(1,126,309)	509,885
Payments related:		
Current year	-	-
Prior years	<u>(58,414)</u>	<u>(22,257)</u>
Total payments	<u>(58,414)</u>	<u>(22,257)</u>
Gross reserve for loss and loss adjustment, end of year balance	<u>\$ 943,548</u>	<u>\$ 2,128,271</u>

#### Net of reinsurance

	2004	2003
Net reserve for loss and loss adjustment, beginning of year balance	\$ 809,989	\$ 1,640,643
Incurring (recovered) related to:		
Provision attributable to the current year	161,209	406,689
Change in provision attributable to prior years	<u>(611,638)</u>	<u>(1,210,442)</u>
Total recovered	(450,429)	(803,753)
Payments related:		
Current year	(8,431)	-
Prior years	<u>(31,106)</u>	<u>(26,901)</u>
Total payments	(39,537)	(26,901)
Net reserve for loss and loss adjustment, end of year balance	<u>\$ 320,023</u>	<u>\$ 809,989</u>

Reserves for loss and loss adjustment expenses relate to delinquent loans, net of reinsurance. Such estimates were based on historical experience which management believed was representative of expected future losses at the time of estimation. As a result of the extended period of time that may exist between the report of a delinquency and claim payment thereon, significant uncertainty and variation exist with respect to the ultimate amount to be paid because economic conditions and real estate markets will change.

#### **4. REINSURANCE**

Effective March 1, 2003, the fund entered into a 75% quota-share reinsurance agreement with Genworth to reinsure 98% of the Funds portfolio. Under the terms of this agreement, the reinsurer will indemnify the Fund for 75% of all losses paid on the insured loans to which the Fund cedes 64.5% of the related premiums. The Agency's reinsurance agreement typically provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy their obligations under the reinsurance agreement. The amount of earned premiums ceded to Genworth for the years ended 2004 and 2003 was \$3,633,888 and \$5,420,148, respectively.

#### **5. ARRANGEMENTS WITH THE CALIFORNIA HOUSING FINANCE FUND**

Certain of the administrative and operating expenses charged to the Fund are provided by the Agency. These expenses, initially paid from the CHFF, include office space, business services, legal services, accounting services, information systems support and human resource support services. The Fund is charged quarterly for these expenses. Amounts payable to the CHFF were \$704,752 and \$362,970 at December 31, 2004 and 2003, respectively. The increase in the amount payable at December 31, 2004 was due to a change in the reimbursement procedures. For the years ended December 31, 2004 and 2003, total expenses allocated to the Fund by the Agency were \$1,432,294 and \$1,336,649 respectively. For the years ending December 31, 2004 and 2003, management determined that CHFF should participate in certain legal and consulting expenses originally paid by the Fund. The amount due to the Fund from the CHFF for these expenses was \$1,256,516 and \$311,807 at December 31, 2004 and 2003, respectively and is included in the Due from California Housing Finance Fund.

The Agency Board of Directors approved Resolution 03-19 on March 20, 2003 authorizing the Agency to utilize the resources of CHFF to support the mortgage guaranty insurance programs of the Agency in the following two ways: 1) the Executive Director of the Agency is authorized to create one or more supplementary reserve accounts within the Supplementary Bond Security Account of CHFF to indemnify the Mortgage Insurance fund for losses incurred or to pay claims against the Mortgage Insurance Fund in connection with loans financed by the Agency, and 2) the Executive Director of the Agency may establish an inter-fund credit agreement by which the Fund may borrow such sums from CHFF as may be required to maintain the claims paying rating of any credit rating service.

Subsequently, the Agency Executive Director established an inter-fund credit agreement in the amount of \$100,000,000 in which the Fund may borrow from CHFF as needed for the purpose of paying claims arising out of policies of mortgage guarantee insurance and costs and expenses related to the payment of such claims. Interest rates and repayment terms are determined upon receipt of a request to draw on this credit facility. The Fund had not requested a draw on this credit through December 31, 2004.

#### **6. PENSION PLAN**

The Fund contributes to the Public Employees' Retirement Fund ("PERF") as part of the State of California, the primary government. The PERF is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employment Retirement System ("CalPERS"). CalPERS provides retirement, death, disability and post retirement health care benefits to members as established by state statute. CalPERS issues a publicly available Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information for the Public Employees' Retirement Fund. A copy of that report may be obtained from CalPERS, Central Supply, and P.O. Box 942175, Sacramento, CA 95229-2715 or via the internet at [www.calpers.ca.gov](http://www.calpers.ca.gov).

For the CalPERS fiscal years ended June 30, 2004 and 2003 the employer contribution rates were 10.265% to 14.843% and 2.813% to 7.413%, respectively. For the CalPERS fiscal year beginning July 1, 2004, which covers the period July 1, to December 31, 2004, the employer contribution rates were 13.216 % to 17.022%.

The Fund's contributions to the PERF for the years ended December 31, 2004, 2003 and 2002 were \$109,919, \$87,784 and \$29,358, respectively, equal to the required contributions for each fiscal year.

Required contributions are determined by actuarial valuation using the individual entry age normal cost method. The most recent actuarial valuation available is as of June 30, 2002, which actuarial assumptions included (a) 8.25% investment rate of return compounded annually, (b) projected salary increases that vary by duration of service, and (c) overall payroll growth factor of 3.75% annually. Both (a) and (c) included an inflation component of 3.5% and a .25% per annum productivity increase assumption. The amortization method is based on a level percentage of payroll closed. The remaining amortization at June 30, 2002 was 13 to 30 years.

The most recent actuarial valuation of the PERF indicated that there was an unfunded actuarial accrued liability. The amount of the under funded liability applicable to each agency or department cannot be determined. Trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2004 CalPERS CAFR.

#### **7. TRANSFER FROM HOUSING AND EMERGENCY SHELTER TRUST FUND ACT OF 2002**

The *Housing and Emergency Shelter Trust Fund Act of 2002* ("Prop 46") is a \$2.1 billion dollar bond measure that was passed by the voters of California in November 2002. The bond provides monies to help fund the construction, rehabilitation and preservation of affordable rental housing, emergency shelters and homeless facilities, as well as funds that can be used to provide down payment assistance to low and moderate income first-time homebuyers. As such, the Fund drew \$8.7 million of the \$85 million allocated towards assistance in developing low income housing from Prop 46. These funds are invested and available to be utilized to pay claims as needed.

#### **8. CONTINGENCIES**

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against the Agency. Based upon information available to the Agency, its review of such lawsuits and claims and consultation with counsel, the Agency believes the liability relating to these actions, if any, would not have a material adverse effect on the Fund's financial statements.

\* \* \* \* \*